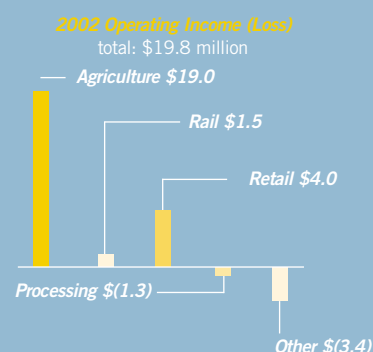
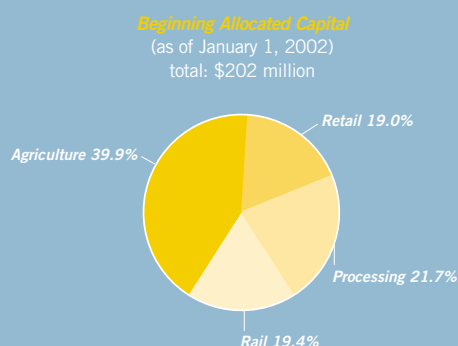
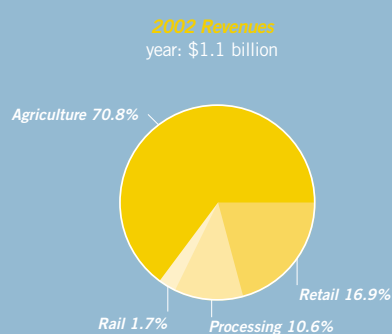


The Andersons

Annual Report

2002

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2002 Accomplishments

- Earned a record \$1.79 per diluted share vs. \$1.21 per diluted share in 2001
- Shareholders enjoyed a 30% total return
- Revenues grew 9% to \$1.1 billion
- Strong cash flow added working capital and reduced long-term debt
- Plant Nutrient achieved a record performance and Grain had its second best year ever
- Signed letter of intent to form an LLC with Lansing Grain Company
- Railcar utilization rate improved 10% in 2002
- Retail's operating income grew by 114% in 2002
- Retail added fresh meat in Toledo and Woodville and started reset of Woodville store
- Achieved significant turnaround in Processing Group through improved efficiencies and cost reductions
- Created an alliance with Powerspan Corp., developer of multi-pollutant control technology for power plants, to produce and market electro-catalytic oxidation fertilizer co-products.
- Joined ICG Commerce's e-Procurement services to improve purchasing efficiencies



The Andersons, Inc. (Nasdaq: ANDE) is a diversified Agribusiness and Retailing Company with annual revenues of approximately \$1.1 billion. The Company, which began operations in Maumee, Ohio in 1947 with one grain elevator and 500,000 bushels of storage capacity, today has four operating groups: *Agriculture, Processing, Rail, and Retail*. For more in-depth information about the Company, please visit our website at www.andersonsinc.com.

Financial Highlights

<i>(in thousands, except for per share and performance data)</i>	2002	2001	% Change
Operations			
Grain sales & revenues	\$ 583,254	\$ 480,219	21.5%
Fertilizer, retail & other sales	492,580	504,408	(2.3%)
Total sales & revenues	\$ 1,075,834	\$ 984,627	9.3%
Gross profit – grain	\$ 51,180	\$ 52,029	(1.6%)
Gross profit – fertilizer, retail & other	114,196	107,316	6.4%
Total gross profit	\$ 165,376	\$ 159,345	3.8%
Other income / gains (net)	\$ 3,741	\$ 3,841	(2.6%)
Income before income taxes and cumulative effect of accounting change	19,834	11,931	66.2%
Net income	13,319	8,857	50.4%
Effective tax rate	32.8%	24.2%	35.5%
Weighted average shares outstanding – basic	7,283	7,281	
Per Share Data			
Net income – basic	\$ 1.83	\$ 1.22	50.0%
Net income – diluted	1.79	1.21	47.9%
Dividends paid	0.26	0.26	–
Year end market value	12.70	10.00	27.0%
Performance			
Pretax return on beginning equity	20.9%	13.3%	
Net income return on beginning equity	14.0%	9.9%	
Funded long-term debt to equity ratio	.80-to-1	.96-to-1	
Number of employees	2,958	3,035	
Earnings before interest, taxes, depreciation and amortization (EBITDA)			
Income before income taxes and cumulative effect of accounting change	\$ 19,834	\$ 11,931	
Depreciation and amortization	14,314	14,264	
Interest	9,812	11,570	
EBITDA	43,960	37,765	
Interest to carry grain inventories	(3,398)	(4,065)	
EBITDA (net of interest to carry grain inventories)	\$ 40,562	\$ 33,700	



DICK ANDERSON

MIKE ANDERSON

“Your company is committed to deliver quality, integrity, honesty, and fairness in its products, services, and reporting. We are also committed to creating value for our customers, shareholders, communities and employees. We are stewards of precious resources, we endeavor to honor God, and be respectful of each other in our efforts. Since we are a company of people engaged in these pursuits, we have featured a few of our 3,000 employees in the 2002 annual report. Our people make it happen! We only wish we could feature more of them.”

To Our Shareholders And Friends,

The Andersons celebrated its **55th** year of growth and success in 2002 with a record-setting performance. Net income was **\$13.3** million or **\$1.79** per diluted share for 2002 compared to **\$8.9** million or **\$1.21** per diluted share in 2001. Total revenues of **\$1.1** billion for 2002 rose **9%** above revenues reported in 2001. Our shareholders have enjoyed excellent total returns (market price plus dividends) over the past two years – **30%** in 2002 and **19%** in 2001. Equity investors are returning to essential and basic industries for protection and long-term value as a result of the slowing economy, poor equity markets, and low bond interest rates. Agribusiness has been a good alternative for investors in these trying times.

The company's record performance and tight control over capital spending in 2002 strengthened our balance sheet. As a result, all measurements of working capital and leverage have improved. We are at our targeted long-term funded debt-to-equity ratio of 0.8 to 1.

Your company is committed to deliver quality, integrity, honesty, and fairness in its products, services, and reporting. We are also committed to creating value for our customers, shareholders, communities and employees. We are stewards of precious resources, we endeavor to honor God, and be respectful of each other in our efforts. Since we are a company of people engaged in these pursuits, we have featured a few of our 3,000 employees in the 2002 annual report. Our **people** make it happen! We only wish we could feature more of them.

The **Agriculture Group** achieved its second best operating performance, finishing slightly behind its 2001 performance. While grain production in the region was below average due to last year's wet planting and summer drought conditions, margin on grain sales was strong. Overall, earnings from grain storage were lower than 2001. The Plant Nutrient Division (formerly the Wholesale Fertilizer and Farm Center Divisions) reported a 7% increase in fertilizer sales volume. Attention to expenses, inventory positions, margin control and facility utilization were key to their success.

The other three business units all reported significant improvement for 2002. The **Retail Group** reported 114% higher income in 2002 over that reported in 2001. Retail achieved slightly higher sales, but most significant improvement came from vigilant attention to gross profit and operating expenses. Lower railcar lease rates and the slowing economy continue to impact the **Rail Group**. However, with improved fleet utilization and reduced carrying costs, Rail reported its best performance since 1999. The **Processing Group** made the most significant turn around. Although not yet in the black, improved plant utilization, better control over raw material costs and right sizing the business all played a part in Processing's improved performance in 2002.

On the **Corporate** side, we were blessed with lower interest rates, but burdened with higher employee benefit and insurance costs. In spite of these higher costs, we kept a purposeful tight rein on operating, administrative and general expenses, which in total were slightly below those of 2001. For more details on last year's performance, see the business review pages in this report.

The prospects for 2003 are good. At this point we do not believe we can exceed the record performance we had in 2002; however, we expect to capitalize on many of the competencies we have built over the last 55 years. We have always stated our performance will reflect the cyclical and seasonal nature of our industries. The weak 2002 harvest will negatively impact 2003 income, but these are expected road bumps we manage through from time to time. It comes with the industry.

We have a long history of physical handling, storing, maintaining, formulating, transporting and financial management of bulk materials. Our experience has provided us with the opportunity to enhance those bulk materials into value added products and services that provide solutions for our customers. Our strategic financial goals include increasing market value, specific growth objectives for each Group and attaining targeted levels of income by 2005. Achieving these goals is more than asset and cost control alone. It requires finding the future products and services to serve current and new customers who will be the future source of sales and profit.

The **Agriculture Group**, which includes the Grain Division and Plant Nutrient Division (PND), forms our largest investment and the base on which most of our other businesses were created. We continue to believe population growth, demand for improved diets and higher standards of living will benefit those invested in the U.S. agriculture system, including The Andersons.

The Grain Division ended 2002 with 56 million bushels of grain in storage, which is a good starting point. However, with last year's poor harvest, we are predicting lower storage income for 2003 as we expect grain inventory to be shipped earlier than usual. On the positive side, winter wheat plantings in our region are estimated to be 2.9 million acres, 23% above last year, which should provide opportunities in 2003. Higher corn prices should also encourage producers to increase plantings in 2003, and higher corn production offers us more margin opportunity than on soybeans. Grain supply and demand are directly impacted by good growing conditions in our marketing region; consequently, much of 2003's performance is dependent on the fall harvest.

Producers make huge investments in the next growing season – inputs, rent, equipment, land, etc. To help them make complex decisions about crop production and marketing, we offer our Crop

Revenue Profiler® software program. This software program integrates the variables of crop insurance and government programs with our grain marketing philosophy to help producers achieve a more predictable result, thus reducing the impact of volatile crop prices. When our customers are successful, it enhances our profitability.

We continue to develop our progressive grain marketing tools, such as Freedom Contractssm, to assist producers in pricing decisions. In 2002 we began taking these contracts and marketing ideas outside our historic marketing region. What we call "portable originations" has been a way to contract with and serve customers without physically handling the grain. In addition, we have developed web-based customer contracts, statements and other information to help customers track and manage their contract positions.

In 2003, the Grain Division became a minority investor in Lansing Grain Company LLC, which is a 77-year old grain trading business with offices in Michigan, Minnesota, and Kansas. This investment should benefit both parties as we serve different market sectors and geographic regions.

The Plant Nutrient Division's focus is on consistent, dependable year-round logistics and supply. Higher grain prices and the newly signed U.S. Farm Bill are positive signs for PND in 2003. Cash flow at the producer level is reported to be strong, which should allow producers to buy the necessary inputs for the 2003 planting season. The division continues to add capacity and re-capitalize existing assets to provide customers with a complete line of nutrient inputs and services.

In addition, PND is investing more time and talent to serve the specialty agriculture, industrial and non-agricultural markets. Several new products introduced in the past year include liquid roadway and runway de-icers and anti-icers, specialty biological nutrients for wastewater treatment and specialty nutrients for agriculture.

In the **Rail Group**, railcar prices and lease rates are beginning to stabilize, which is a positive sign for 2003. Although new railcar production has been cut dramatically in recent years, there is usually demand for less expensive rebuilt-cars. We are positioned to meet this demand with rolling stock and our railcar repair and fabrication shops. Not only can these facilities repair and rebuild cars, they can also design and build bulkheads, gates, and hatches to match customer demand. With capabilities both in the railcar repair and fabrication business, it's easier to meet customer needs in the lease business. Our goal is to be the Total Rail Solutionssm provider for our railcar customers. Plans are for Rail to add a new repair facility in South Carolina in 2003.

Rail had 5,699 railcars under management at the end of 2002, 5% more than in 2001. In addition, we have 51 locomotives under management. We ended 2002 with 85% of the railcars under management in service. This is up 10% from 2001, a huge improvement. Our utilization objective in 2003 is to be at 90%. We continue to believe this business can grow at a 20% annual rate for the near future. We have found opportunities by purchasing railcars with attached leases from investors looking to re-balance or modify their portfolios. With the sluggish economy, our focus is on short-term lease deals [where the largest demand is], diligent management of railcars, monitoring credit quality, valuation and positions, and stepping up our sales and marketing efforts.

The **Processing Group** made a sizable turnaround in 2002 and expects to be in the black in 2003. The business was reorganized to capture efficiencies in the areas of marketing, operations, and reporting/systems. We are implementing a cost system and are studying total IT systems needs. We have better control over ingredient costs by sourcing raw material earlier, margins have improved, and we are paying very close attention to working capital usage. We still have more work to do in order to get Processing to achieve an acceptable return.

Lawn fertilizer shipments increased 3% in 2002, and they are expected to grow 3% in 2003. The "big box retail" consumer lawn fertilizer business is dynamic. However, because these larger customers have greater demands, change can be rewarding or painful. We have successfully served this market for decades and continue to believe we have opportunity to profitably add value as a private label supplier to the industry. For 2003 we landed a new international private label for U.S. distribution and expect this relationship to grow in future years.

Our professional turf business, Andersons Golf Products™, has stabilized and is expected to grow by 8% in 2003. Our goal for this business is to increase distribution to New England and the Southeastern U.S.

The Processing Group's other businesses, cob-based carriers and animal bedding/litter products, were modestly profitable in 2002. There are a number of new products being tested in the marketplace that show promise for 2003.

Our **Retail Group's** focus on MORE FOR YOUR HOME® is paying off as noted by their 2002 improved performance. The addition of a fresh meat market in the Maumee Store was such a huge success that we added similar markets to the Toledo and Woodville stores. The addition complements our deli, bakery, produce and wine offerings and gives customers the convenience of one-stop food shopping. We are now considering fresh meat markets for our Central Ohio stores as well.

This year we are rolling out a new shopping concept at our Woodville store designed to increase the average per-customer sale. The new concept features a floor plan that improves customer flow and significantly increases the number of merchandise end-caps to more prominently feature selected merchandise.

Margins are up in 2002 as a result of vigilant control over markdowns. We will focus on inventory turns, in-stock performance, labor utilization efficiency and improved technologies in 2003.

The most important issue for Retail is growth – will there be a seventh store? We have been evaluating our long-term growth potential, testing site selection models and investigating a few specific sites. We expect to finalize a decision in 2003.

On the **Administrative** front we have been watchful of our operating, administrative and general expenses, developing and extending our use of ERP systems and technology, and intensifying strategic sourcing and procurement efforts to find more efficient and less expensive business practices.

Interest expense improved by \$1.8 million in 2002, mainly from lower interest rates. As a result of the lower interest rate environment, we made a number of capital market moves that we believe will benefit the company in 2003 and beyond. In November, we completed a \$200 million short and long-term credit line syndicated with six major

banks. In addition, we restructured our long-term debt, increasing the fixed rate portion to 90% of the total outstanding. Net working capital is up by 7%. Capital spending was managed very closely and as a result, operating cash flow was strong, all of which strengthened the year-end balance sheet.

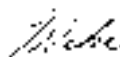
Our balance sheet has grown to over \$469 million in total assets. Most of the asset growth is in grain inventories. Contrary to the way most non-commodity businesses operate, high grain inventories are generally a positive indicator for the near future. In our remaining businesses, we are striving to use working capital more efficiently.

We expected an improvement in operating income in 2002 and that was accomplished. We thank our 3,000 hard working, creative and dedicated employees who provide extraordinary products and service to our customers.

We are grateful to them, to our customers and suppliers, and to you our shareholders. We believe in honesty, integrity, and mutual respect for our employees, customers and shareholders. These values will prevail at The Andersons.

One final note. We want to extend our thanks to two long-time board members, Don Anderson and Rick Anderson, who are stepping down this year. Their dedication and guidance for the past 14 years have been invaluable. In the future, the board's governance/nominating committee will be seeking candidates to fill these two vacancies. Their choices will reflect The Andersons' commitment to a diversified board with a majority of non-management directors that represent a wide range of interests and business philosophies.

Sincerely,



Mike Anderson, CEO & President



Dick Anderson, Chairman of the Board

WITH THANKS



Don Anderson
Director, 1988-2002

One of the six children of our founder Harold Anderson, Don's career with the company started at its inception in 1947 and continued to his retirement in 1996 as Director of Science. For the last 15 years Don has shared his wisdom and expertise as a member of our Board of Directors. Don is stepping down from the Board this year. We want to express our sincere thank you to him for his many years of service and dedication to The Andersons.



Rick Anderson
Director, 1988-2002

Rick joined The Andersons in 1986 and has been a member of the Board of Directors for the last 15 years. Although Rick will no longer be a member of our Board, he continues to serve the Company as President of the Processing Group. Thank you to Rick for his contributions and service to The Andersons Board of Directors and for his continued leadership of our Processing Group.

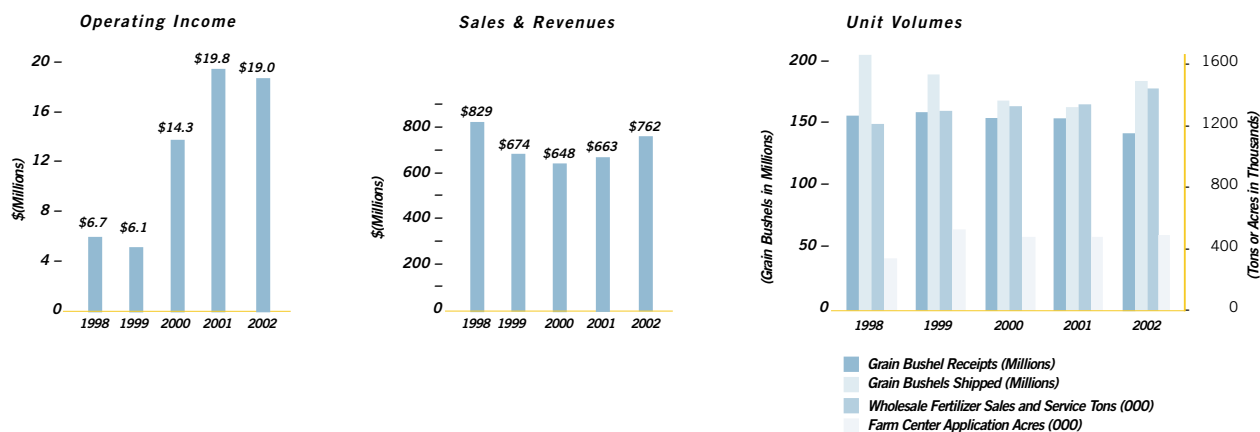


Mary Schroeder

*Mary Schroeder, Treasury/Credit Analyst, 33 years
Corporate/Administrative*

Mary keeps the wheels of commerce running smoothly. She assists with the treasury functions, approves commercial credit accounts, and coordinates investor relations activities. In 1997, Mary realized a long-held dream when she earned a Bachelor of Arts degree with the help of the company's Educational Assistance Program. Her love of learning extends to her volunteer work as a grade school tutor, her 4-H involvement and her board membership with the Sandusky County Educational Service Center.

Agriculture Group



The Agriculture Group operates grain elevators and plant nutrient formulation and distribution facilities in Ohio, Michigan, Indiana and Illinois. The group's elevators receive large quantities of grain and oilseeds (primarily corn, soybeans and wheat) from farms and country elevators in the region, store and condition it, then market it via rail or ship to domestic and export processors. The plant nutrient distribution facilities formulate and market large volumes of dry and liquid agricultural nutrients to dealers, distributors and company-owned farm centers. The group is also a formulator of technologically advanced, environmentally friendly, liquid anti-icers for use in runway and roadway applications.

In 2002, the Agriculture Group's operating income was \$19 million, the second highest performance in its 55-year history, topped only by the record set in 2001. Total revenues of \$762 million in 2002 were almost \$100 million higher than the previous year.

The drought that affected grain production in the region this past summer broke a five-year string of relatively good growing seasons in the eastern corn belt. Fewer bushels were delivered to the group's elevators, and ending corn, soybean and wheat stocks in the U.S. also declined. As a result, the group's earnings from storing grain were lower than they were in 2001. Demand from grain processors remained strong, resulting in double-digit percentage price increases, excellent margins, and increased gross profit from handling and conditioning grain. The group also experienced earnings growth from its emerging AgriPartners® Plus, Gold and Platinum service businesses, offering various information, marketing, crop insurance programs and licensing agreements to producers and elevators throughout the corn belt.

The Plant Nutrient Division's wholesale tonnage volume increased in 2002 and gross margins remained strong. As a result, this business experienced growth in revenues, gross profit and operating income, surpassing its previous earnings record. Market share gains were achieved in its core plant nutrient formulation and distribution business through a strong customer focus, an excellent market position with basic manufacturers and strategically located assets. Twenty percent growth was achieved in the industrial and specialty agricultural customer sector as well.

The group's farm centers again achieved a modest operating profit for the year. Custom application acreage increased in 2002, and expenses were pared by consolidating some locations to improve efficiency.

A sizable portion of the Company's total spending on plant and equipment in 2002 was allocated to the Agriculture Group. In addition to numerous facility recapitalization projects, significant investments were made to improve the loadout and grain-cleaning capabilities of its river elevator in Toledo and to increase the storage capacity three-fold at its fertilizer terminal in Lordstown, Ohio to better serve the group's growing customer base in eastern Ohio, Pennsylvania and western New York. Early in 2003, the group also completed a joint venture transaction with Lansing Grain, a grain trading company, to form a new limited liability company that will serve as a platform for future growth initiatives.



*David Stover, Grain Originations Merchant, 13 years
Agriculture Group/Grain Division*

David is the seventh generation to live on his family's farmstead, a heritage that gives him a unique perspective as a commodities trader. He counts the success he creates for farmers – improving efficiency and profitability – as the most rewarding part of his job. In his off hours, David and his wife, a veterinarian, share duties as youth directors at their church.

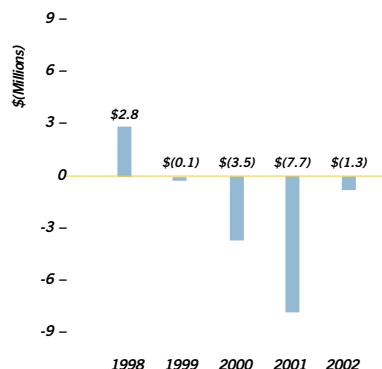
*Melissa "Missy" Bauer, Field Agronomist, 2 years
Agriculture Group/Plant Nutrient Division*

Raised on a 2500-acre cash crop and cattle farm, Missy learned farming from the ground up. Now she works with dealers and farmers to improve production and yields. Among her pet projects is teaching kids about agriculture. "It's important that everyone understand the food production process," she explains. When she's not working, Missy can usually be found outdoors, golfing or snowmobiling with her husband.

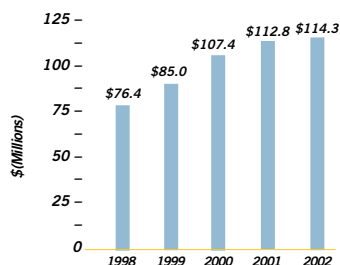


Processing Group

Operating Income (Loss)



Sales & Revenues



The Processing Group manufactures turf and ornamental plant fertilizer and control products for sale by major retailers in the U.S. and is the industry's leading supplier of premium turf-care products for golf courses and other professional markets. It also produces corncob-based chemical and feed ingredient carriers, animal bedding, cat litter and ice-melter products. The group operates facilities in Maumee and Bowling Green, Ohio; Montgomery, Alabama; Pottstown, Pennsylvania; and Delphi, Indiana.

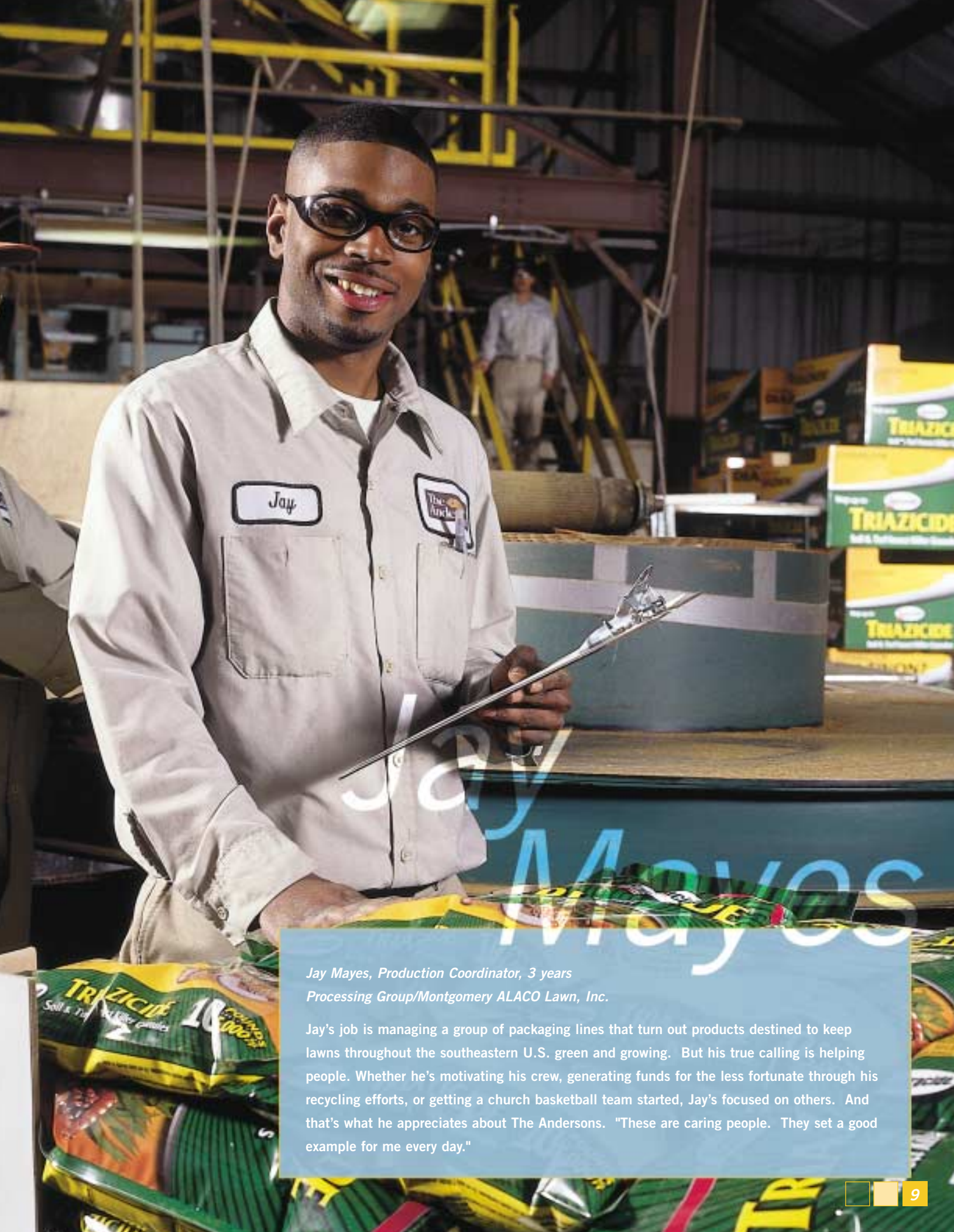
Total revenues were \$114 million in 2002, slightly higher than the \$113 million realized in 2001. The group's bottom line reflected a significantly larger improvement, reducing the prior year loss by more than \$6 million.

The volume of turf fertilizer sold in the U.S. in 2002 was negatively impacted by the unusually dry summer throughout much of the country. The group's turf business was able to achieve a 3 percent increase in volume for the year, however, with growth in total sales to consumer and industrial accounts more than offsetting lower volumes going into professional markets. Average gross margins improved due to lower ingredient costs, primarily nitrogen, and a noticeable shift from straight fertilizers to higher-margin control products.

Retailers across the country continued to focus on controlling in-store inventories and just-in-time delivery of product to their stores. Sales of turf-care products to the golf course market were hurt when the number of golf rounds played in the U.S. declined for the third straight year.

Late in the year, the Processing Group began shipping a new line of turf-care products that consumers will begin to see on a major retailer's shelves in 2003.

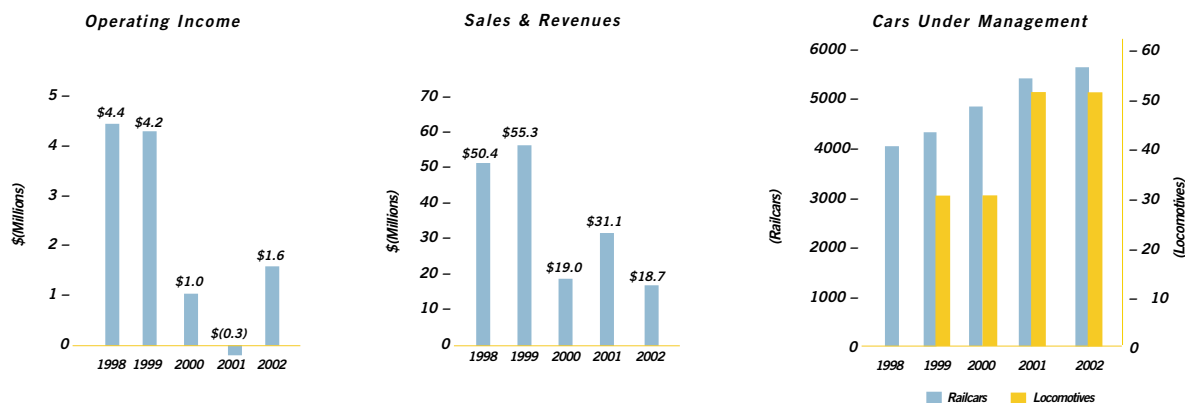
The group's other businesses, primarily the manufacturing of cob-based chemical and feed ingredient carriers, animal bedding and litter products, achieved modest bottom-line improvement in 2002.



*Jay Mayes, Production Coordinator, 3 years
Processing Group/Montgomery ALACO Lawn, Inc.*

Jay's job is managing a group of packaging lines that turn out products destined to keep lawns throughout the southeastern U.S. green and growing. But his true calling is helping people. Whether he's motivating his crew, generating funds for the less fortunate through his recycling efforts, or getting a church basketball team started, Jay's focused on others. And that's what he appreciates about The Andersons. "These are caring people. They set a good example for me every day."

Rail Group



The Rail Group sells and leases railcars and locomotives. It also repairs and reconfigures various types of railcars to meet customer specifications, and operates a custom steel-fabrication business. The group's rail marketing business has grown significantly in recent years and now has approximately 5,700 railcars and 51 locomotives under management. The fleet consists of covered hopper cars, boxcars, open top hopper cars, gondolas, and tank cars. The group leases its rolling stock to shippers, railroads and fleet owners in a wide range of industries throughout North America.

The group's total revenues were \$18.7 million in 2002. This was \$12.4 million, or 40 percent, below the \$31.1 million generated in 2001. Revenues from railcar and locomotive leasing and the group's two shops increased in the past year, but the absence of any significant car sales in 2002 caused total revenues to decline.

The fleet of cars managed by this group continued to grow in 2002. Significant improvement was also achieved in the utilization rate of the railcar fleet from 75 percent in 2001 to 85 percent at the end of 2002, following two successive years of decline. Because of the overall fleet growth and improved fleet utilization, more cars were in income-producing service, fewer cars were out of service, and total leasing income increased.

Operating income also improved in 2002 primarily because of the writedown of the value of certain railcars during 2001. In total, the group achieved an operating income of \$1.6 million in 2002, an improvement of \$1.9 million from the operating loss of \$0.3 million reported for 2001.

Although no noticeable rebound has yet emerged in car values and lease rates for some types of railcars, two areas which have been in a cyclical downturn for the past three years, the group has positioned itself well and demonstrated its ability to achieve income growth through a well-managed leasing program.

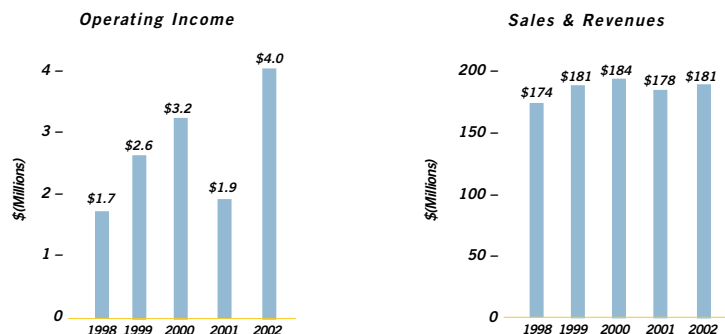
The railcar repair shop and the fabrication shop performed well in 2002. The integration of these shops with the rail marketing business continues to bear fruit. As the Rail Group strives to be a Total Rail Solutionssm provider for its customers, some exciting opportunities are emerging. In component manufacturing, for example, the group has the ability to design a component, manufacture it, install it on a car, then lease the refurbished car to a customer. As the group continues to build the lease fleet, it is taking care to diversify it in terms of lease duration, car types, industries, customers and geographic dispersion. The Rail Group will continue to monitor credit quality of its customers diligently, and to match fund assets and liabilities as much as possible to effectively manage risk.



*Ron Roth, Machinist, 25 years
Rail Group/Fabrication Shop*

Ron is a rarity in today's world ... a skilled and creative machinist. His capable hands recreate obsolete parts, and design and make new ones. Like many employees, Ron came to The Andersons through a family connection. He was trained by one uncle and worked along side another. He lives in the same small town where he was born and where his family still gathers each week for Sunday dinner.

Retail Group



The Retail Group operates six large stores in Ohio; three in the Toledo area, two in Columbus and one in Lima. Four are stand-alone facilities with in-store selling space of 130,000 or more square feet each. The other two are slightly smaller mall-based units. The goal of the Retail Group is to serve the needs of homeowners more effectively than competing home centers and mass merchants. The group's central message to the retail customer is MORE FOR YOUR HOME®. The product offering includes a broad array of traditional home center merchandise - plumbing, electrical and building supplies, hardware, tools, kitchen and bath design, flooring, paint and lighting products. In addition to these, the stores feature lawn and garden products, extensive lines of housewares and domestics, workwear, pet supplies, automotive supplies and sporting goods. Each store also has an Uncommon Market™ with a unique offering of high quality foods including produce, a deli, a bakery, specialty gourmet foods, frozen and fresh meats, and one of the largest selections of fine wines in the Midwest.

Despite the general sluggishness reported by retailers across the country, total sales for the Retail Group grew by 1.8% this year, from \$178 million in 2001 to \$181 million in 2002. Operating income of \$4.0 million for the year was more than double the \$1.9 million realized in 2001.

Although the number of shoppers in the group's stores last year was virtually unchanged from a year ago, the average amount purchased by customers was higher and average gross margins also improved from year-earlier levels.

The addition of a fresh meat business in two more stores in 2002 was received enthusiastically by customers. All three Toledo-area stores now offer this new product category. In addition, above-average growth was achieved in several Uncommon Market™ product categories, most notably produce, deli and specialty foods.

The Retail Group also continued to focus heavily on operational improvements in 2002. Total store labor hours were again reduced from year-earlier levels without a reduction in customer service levels. In-stock performance showed gains, exceeding 2001's monthly levels throughout the year. Total in-stock performance was the highest it has been in the six years this metric has been measured.

In addition to numerous facility recapitalization projects, the Retail Group made a significant investment to upgrade the already very successful garden center at the Toledo store. It also began a major remodeling project at another store to test a concept that will improve product accessibility for customers and greatly increase the number of promotional displays throughout the store.

Constant attention to product mix enhancements and operational efficiency are driven by the group's desire to out-perform the competition in the customer's total shopping experience.



*Florinda Norwalk, Greeter, 15 years
Retail Division, Woodville General Store.*

To many, she's "Miss Andersons". "My neighbors call me for the week's specials," says this ambassador of customer service. She shines in her very public position as Greeter. All the more surprising since Florinda once feared speaking in public. When not working, she spends time with family, checks in on elderly neighbors, and indulges in a passion for travel she shares with her husband of 22 years.

Selected Financial Data

	2002	2001	2000	1999	1998
(in thousands, except for per common share data)					
Operating Results					
Total sales & revenues	\$ 1,075,834	\$ 984,627	\$ 961,122	\$ 1,005,922	\$ 1,140,445
Net income	13,319 (a)	8,857 (a)	10,078 (b)	8,379	9,752
Per common share data:					
Earnings - diluted	1.79	1.21	1.34	1.03	1.20
Dividends paid	0.26	0.26	0.24	0.20	0.16
Balance Sheet Data					
Total assets (c)	\$ 469,815	\$ 458,324	\$ 442,965	\$ 379,663	\$ 362,663
Working capital	80,830	75,228	55,260	67,939	65,898
Long-term debt (d)	84,272	91,316	80,159	74,127	71,565
Shareholders' equity	104,840	94,934	89,836	84,805	82,734

(a) Gains of \$0.3 million (\$0.2 million after tax) for insurance settlement are included in each of 2002 and 2001.

(b) Gains of \$2.1 million for an insurance settlement and \$1.0 million on the sale of a business are included (\$2.0 million after tax).

(c) Includes reclassification of pension asset for all years presented.

(d) Excludes current portion.

Quarterly Financial Data and Market for Common Stock

(in thousands, except for per common share data)

common share data)			Net Income (Loss)		Common Stock Quote		Dividends Declared
Quarter Ended	Net Sales	Gross Profit	Amount	Per Share-Basic	High	Low	
2002							
March 31	\$ 214,831	\$ 36,020	\$ 1,609	\$ 0.22	\$ 10.40	\$ 9.35	\$ 0.065
June 30	301,098	49,083	8,760	1.20	13.75	10.12	0.065
September 30	204,722	34,475	(84)	(0.01)	13.60	11.76	0.065
December 31	355,183	45,798	3,034	0.42	13.00	11.38	0.070
Year	\$ 1,075,834	\$ 165,376	\$ 13,319	1.83			\$ 0.265
2001							
March 31	\$ 218,007	\$ 35,115	\$ (815)	\$ (0.11)	\$ 8.94	\$ 8.03	\$ 0.065
June 30	273,064	48,260	7,274	1.00	8.88	7.50	0.065
September 30	186,518	31,314	(1,905)	(0.26)	10.00	7.72	0.065
December 31	307,038	44,656	4,303	0.60	10.00	8.51	0.065
Year	\$ 984,627	\$ 159,345	\$ 8,857	1.22			\$ 0.260

Report Of Independent Accountants

To the Board of Directors and Shareholders of The Andersons, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of shareholders' equity, as presented on pages 16 through 19 and pages 24 through 36, present fairly, in all material respects, the financial position of The Andersons, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures

in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PriceWaterhouseCoopers LLP

**Toledo, Ohio
January 27, 2003**

Consolidated Statements Of Income

(in thousands, except per common share data)	Year ended December 31		
	2002	2001	2000
Sales and merchandising revenues	\$ 1,075,834	\$ 984,627	\$ 961,122
Cost of sales and merchandising revenues	910,458	825,282	804,159
Gross profit	165,376	159,345	156,963
Operating, administrative and general expenses	139,471	139,685	137,839
Interest expense	9,812	11,570	11,829
Other income / gains:			
Other income (net)	3,439	3,503	3,989
Gain on insurance settlements	302	338	2,088
Gain on sale of business	—	—	992
Income before income taxes and cumulative effect of accounting change	19,834	11,931	14,364
Income tax provision	6,515	2,889	4,286
Income before cumulative effect of accounting change	13,319	9,042	10,078
Cumulative effect of change in accounting principle, net of income tax benefit	—	(185)	—
Net income	\$ 13,319	\$ 8,857	\$ 10,078
Per common share:			
Basic earnings	\$ 1.83	\$ 1.22	\$ 1.34
Diluted earnings	\$ 1.79	\$ 1.21	\$ 1.34
Dividends paid	\$ 0.26	\$ 0.26	\$ 0.24

The Notes to Consolidated Financial Statements on pages 24-36 are an integral part of these statements.

Consolidated Balance Sheets

(in thousands)	December 31	
	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,095	\$ 5,697
Accounts and notes receivable:		
Trade receivables, less allowance for doubtful accounts of \$3,014 in 2002; \$2,701 in 2001	59,800	51,080
Margin deposits	–	3,756
	59,800	54,836
Inventories	256,275	238,291
Railcars available for sale	550	11,932
Deferred income taxes	3,491	3,963
Prepaid expenses and other current assets	11,675	11,954
Total current assets	337,886	326,673
Other assets:		
Pension asset	5,828	4,248
Other assets and notes receivable, less allowance for doubtful notes receivable of \$222 in 2002; \$472 in 2001	5,794	5,344
Investments in and advances to affiliates	969	956
	12,591	10,548
Railcar assets leased to others, net	26,399	26,102
Property, plant and equipment, net	92,939	95,001
	\$ 469,815	\$ 458,324
Liabilities and shareholders' equity		
Current liabilities:		
Notes payable	\$ 70,000	\$ 82,600
Accounts payable for grain	75,422	66,968
Other accounts payable	60,285	50,996
Customer prepayments and deferred income	21,970	22,683
Accrued expenses	19,604	17,824
Current maturities of long-term debt	9,775	10,374
Total current liabilities	257,056	251,445
Deferred income	717	2,209
Other long-term liabilities	381	223
Employee benefit plan obligations	12,198	9,550
Long-term debt, less current maturities	84,272	91,316
Deferred income taxes	10,351	8,647
Total liabilities	364,975	363,390
Shareholders' equity:		
Common shares, without par value		
Authorized — 25,000 shares		
Issued — 8,430 shares at stated value of \$0.01 per share	84	84
Additional paid-in capital	66,662	66,431
Treasury shares, at cost (1,258 in 2002; 1,174 in 2001)	(12,558)	(10,687)
Accumulated other comprehensive loss	(815)	(964)
Unearned compensation	(73)	(83)
Retained earnings	51,540	40,153
	104,840	94,934
	\$ 469,815	\$ 458,324

The Notes to Consolidated Financial Statements on pages 24-36 are an integral part of these statements.

Consolidated Statements Of Cash Flows

(in thousands)	Year ended December 31		
	2002	2001	2000
Operating activities			
Net income	\$13,319	\$ 8,857	\$10,078
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	14,314	14,264	13,119
Provision for losses on accounts and notes receivable	353	224	911
Cumulative effect of accounting change, net of income tax benefit	–	185	–
Gain on insurance settlements	(302)	(338)	(2,088)
Gain on sale of business	–	–	(992)
Gain on sale of property, plant and equipment	(406)	(336)	(35)
Realized and unrealized (gains) losses on railcars	(179)	1,172	(110)
Deferred income tax provision (benefit)	2,709	(539)	2,242
Other	91	368	111
Cash provided by operations before changes in operating assets and liabilities	29,899	23,857	23,236
Changes in operating assets and liabilities:			
Accounts and notes receivable	(5,249)	2,080	(6,984)
Inventories	(17,984)	(26,428)	(35,811)
Prepaid expenses and other assets	(474)	(117)	(3,604)
Accounts payable for grain	8,454	(500)	(1,415)
Other accounts payable and accrued expenses	8,603	(5,000)	6,274
Net cash provided by (used in) operating activities	23,249	(6,108)	(18,304)
Investing activities			
Purchases of property, plant and equipment	(9,834)	(9,155)	(16,189)
Purchases of railcars	(8,203)	(21,790)	(16,245)
Purchase of U.S. ProTurf® and other business assets	–	–	(16,311)
Proceeds from sale of railcars	15,985	15,376	3,821
Proceeds from sale of property, plant and equipment	598	951	240
Proceeds from insurance settlements	302	338	2,346
Proceeds from sale of business	–	–	2,133
Net cash used in investing activities	(1,152)	(14,280)	(40,205)
Financing activities			
Net increase (decrease) in short-term borrowings	(12,600)	11,300	26,300
Proceeds from issuance of long-term debt	22,333	23,250	194,723
Payments of long-term debt	(29,976)	(10,845)	(187,417)
Change in overdrafts	2,866	(7,796)	17,827
Payment of debt issue costs	(634)	–	–
Proceeds from sale of treasury shares under stock compensation plans	840	332	363
Dividends paid	(1,903)	(1,907)	(1,819)
Purchase of treasury shares	(2,625)	(1,387)	(3,944)
Net cash provided by (used in) financing activities	(21,699)	12,947	46,033
Increase (decrease) in cash and cash equivalents	398	(7,441)	(12,476)
Cash and cash equivalents at beginning of year	5,697	13,138	25,614
Cash and cash equivalents at end of year	\$ 6,095	\$ 5,697	\$ 13,138
Noncash investing activities			
Acquisition of intangible assets in exchange for long-term debt			\$ 3,879

The Notes to Consolidated Financial Statements on pages 24-36 are an integral part of these statements.

Consolidated Statements Of Shareholders' Equity

	Common Shares	Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Loss	Unearned Compensation	Retained Earnings	Total
(in thousands)							
Balances at January 1, 2000	\$ 84	\$ 67,227	\$ (7,158)	\$ (144)	\$ (158)	\$ 24,954	\$ 84,805
Net income						10,078	10,078
Other comprehensive income:							
Minimum pension liability, net of \$0.1 million income taxes				144			144
Comprehensive income							10,222
Stock awards, stock option exercises, and other shares issued to employees and directors (130 shares)		(96)	607		(148)		363
Issuance of shares to complete acquisition		(643)	643				—
Amortization of unearned compensation					228		228
Purchase of treasury shares (477 shares)			(3,944)				(3,944)
Dividends declared (\$0.245 per common share)						(1,838)	(1,838)
Balances at December 31, 2000	84	66,488	(9,852)	—	(78)	33,194	89,836
Net income						8,857	8,857
Other comprehensive income (loss):							
Cumulative effect of accounting change				(1,172)			(1,172)
Other				208			208
Comprehensive income							7,893
Stock awards, stock option exercises, and other shares issued to employees and directors, net of tax (62 shares)		(57)	552		(163)		332
Amortization of unearned compensation					158		158
Purchase of treasury shares (166 shares)			(1,387)				(1,387)
Dividends declared (\$0.26 per common share)						(1,898)	(1,898)
Balances at December 31, 2001	84	66,431	(10,687)	(964)	(83)	40,153	94,934
Net income						13,319	13,319
Other comprehensive income:							
Cash flow hedge activity, net of income tax of \$0.5 million				149			149
Comprehensive income							13,468
Stock awards, stock option exercises, and other shares issued to employees and directors, net of income tax of \$0.3 million (132 shares)		231	754		(145)		840
Amortization of unearned compensation					155		155
Purchase of treasury shares (216 shares)			(2,625)				(2,625)
Dividends declared (\$0.265 per common share)						(1,932)	(1,932)
Balances at December 31, 2002	\$ 84	\$ 66,662	\$ (12,558)	\$ (815)	\$ (73)	\$ 51,540	\$ 104,840

The Notes to Consolidated Financial Statements on pages 24-36 are an integral part of these statements.

Management's Discussion & Analysis

Operating Results

Operating results for The Andersons, Inc. business segments are discussed in the Business Review on pages 6-13 of this annual report. In addition, Note 13 to the consolidated financial statements displays selected financial information for each of the Company's business segments. The following discussion focuses on the operating results as shown in the consolidated statements of income.

Comparison of 2002 with 2001

Sales and merchandising revenues for 2002 totaled \$1.08 billion, an increase of \$91.2 million, or 9%, from 2001. Sales in the Agriculture Group were up \$109.8 million, or 18%. Increased grain sales of \$114.4 million included both a 9% volume increase and a 16% increase in the average price of bushels sold. All grains showed price per bushel increases and bushel volume was up for corn and wheat. Fertilizer sales were down \$4.6 million, or 3%, due to a 9% decrease in the average price per ton sold, partially offset by a 7% increase in tons sold. Revenues in both grain and fertilizer businesses are significantly impacted by the market price of the commodities being sold.

Merchandising revenues in the Agriculture Group were down \$11.0 million, or 23%, due to decreases in space income (before interest charges) in the grain division. Space income is income earned on grain held for our account or for our customers and includes storage fees earned and appreciation or depreciation in the value of grain owned. Grain on hand at December 31, 2002 was 56.3 million bushels, of which 13.4 million bushels were stored for others. This compares to 65.4 million bushels on hand at December 31, 2001, of which 10.4 million bushels were stored for others.

The results of the 2002 harvest were mixed with poor yields in some portions of the Company's market area. As a result, management expects that the 14% decline in grain held in the Company's facilities from year to year will negatively impact space income in the first half of 2003. The higher grain prices, however, may favorably impact the fertilizer business for the same period. Wheat acreage (planted in 2002 for harvest in July 2003) in the Company's market area has increased and management expects that corn acreage to be planted in Spring 2003 will increase as well, due to the higher corn prices. However, poor weather during the spring planting season may unfavorably impact the corn and soybean planted acreage during that time.

The Processing Group had a \$1.5 million, or 1%, increase in sales and merchandising revenues resulting primarily from an overall 3% increase in lawn division tons sold, partially offset by a 3% decrease in the average price per lawn division ton sold. The industrial lawn business (where the Group is responsible only for the contract manufacturing of product and does no marketing) continues to grow in relative size, due, in part, to the movement of a large consumer customer to an industrial relationship. The Company receives less margin for industrial tons, as compared to consumer tons, because it is acting primarily as a contract manufacturer and not incurring certain sales and marketing costs. Further, the Company is no longer required to accept returns from the customer. The reduction of returns and elimination of marketing costs contributed to the sales increase. The professional lawn business continues to be impacted by general softness in the golf course market and a reduction in the number of rounds played.

The Rail Group had a \$12.3 million, or 40%, decrease in sales. While lease revenue was up \$1.8 million, or 14%, in 2002, sales of railcars were down \$15.2 million. Sales in the fabrication and rail repair shops were up \$1.1 million. Railcars under management at December 31, 2002 were 5,699 compared to 5,432 under management at December 31, 2001. Locomotives under management were 51

for both 2001 and 2002. The railcar utilization (railcars in lease service) rate increased from 75% at December 31, 2001 to 85% at the end of December 2002.

The Retail Group had a 1.8% increase in same-store sales and revenues in 2002 as compared to 2001. Individual store results were mixed, however both the Toledo and Columbus markets showed increases. In addition, three of the six stores have added a fresh meat counter since the third quarter of 2001. This business is managed by a third party and the Company earns commissions on sales of fresh meat. These commissions have been included in merchandising revenues. The Company expects that significant new competition in the Toledo market may impact sales in 2003. The Company is also in the process of testing a new store layout in one of its Toledo area stores which should improve customer flow.

Gross profit for 2002 totaled \$165.4 million, an increase of \$6.0 million, or 4%, from 2001. The Agriculture Group had a \$0.9 million, or 1%, decrease in gross profit, in spite of the significant increase in revenues mentioned previously. Gross profit in the grain division totaled \$51.2 million, a decrease of \$0.8 million, or 2%. The fertilizer businesses of the Agriculture Group recognized a decrease in gross profit of \$0.1 million, primarily due to a decrease in gross profit per ton, nearly offset by increased volume of fertilizer sold.

Gross profit for the Processing Group in 2002 increased \$2.5 million, or 12%, when compared to 2001. Overall gross profit per ton for the Processing Group was up 11%. Although there was a 3% decrease in average price per lawn ton sold, there was also a 5% decrease in the average cost of a lawn ton. Coupled with the volume increase in the lawn division and the gross profit impact of the reduction in returns and marketing costs mentioned previously, lawn division gross profit was up \$2.8 million, or 16%. The cob-based businesses experienced a decrease of \$0.3 million, or 8%, in gross profit, resulting in the overall \$2.5 million increase for the Group.

Gross profit in the Rail Group increased \$1.5 million, or 20%. Of this increase, \$0.4 million was due to the improved performance of the lease fleet primarily related to the increase in railcars in service. In addition, the Group took a \$0.3 million non-cash charge to recognize a permanent impairment in the value of certain railcars in 2002. The Group took a comparable charge of \$1.5 million in 2001.

Gross profit in the Retail Group increased \$2.9 million, or 6%, from 2001. This was due to both the increase in sales discussed previously and a percentage point increase in margins. This margin increase results primarily from changes in product mix and better management of promotional programs and markdowns.

The Company recorded gains of \$0.3 million in each of 2002 and 2001 related to insurance recoveries.

Operating, administrative and general expenses for 2002 totaled \$139.5 million, a \$0.2 million decrease from 2001. Full-time employees increased 2% from 2001, however, labor expense decreased \$1.0 million, or 1%. The majority of the decrease relates to severance costs of \$1.3 million in 2001 compared to \$0.4 million in 2002. Benefit costs, however, rose 11% due to the increased cost of providing pension and health care benefits to current and former employees. In addition, the Company's performance incentive expense increased \$1.3 million, which reflects the improved 2002 results when compared to 2001. Significant expense reductions were realized in rent, advertising and professional services. In addition to the benefit and performance incentive expense increases mentioned previously, increases were also realized in insurance expense and maintenance expense. In spite of actions taken to slow the growth of benefit and insurance expenses, the Company expects the trend toward higher costs to continue through 2003.

Management's Discussion & Analysis (Continued)

Interest expense for 2002 was \$9.8 million, a \$1.8 million, or 15%, decrease from 2001. Average daily short-term borrowings for 2002 were up 2% when compared to 2001 while the average short-term interest rate decreased from 5.1% for 2001 to 3.2% for 2002. Long-term interest expense decreased slightly for the same period.

As a result of the above, pretax income of \$19.8 million for 2002 was 66% higher than the pretax income of \$11.9 million in 2001. Income tax expense of \$6.5 million was recorded in 2002 at an effective rate of 32.8%. In 2001, income tax expense of \$2.9 million was recorded at an effective rate of 24.2%. The significant change in the effective tax rates between 2001 and 2002 resulted primarily from a much higher benefit from our foreign sales corporation in 2001 relative to the pretax income.

As a result of the above, the 2002 net income of \$13.3 million was \$4.4 million better than the 2001 net income of \$8.9 million. Basic earnings per share increased \$0.61 from 2001 and diluted earnings per share increased \$0.58 from 2001.

Comparison of 2001 with 2000

Sales and merchandising revenues for 2001 totaled \$984.6 million, an increase of \$23.5 million, or 2%, from 2000. Sales in the Agriculture segment were up \$11.6 million, or 2%. Grain sales were down \$13.5 million, or 3%, due to flat volumes and a 3% decrease in the average price per bushel sold. Fertilizer sales were up \$25.1 million, or 17%, due to a 2% increase in volume and a 14% increase in average price per ton sold. Merchandising revenues in the Agriculture segment were up \$2.8 million, or 6%, due primarily to increases in drying and mixing income, space income (before interest charges) in the grain division and licensing revenue from the Crop Revenue Profiler® software. Space income includes storage fees earned on grain held for our customers and appreciation in the value of grain owned. Grain bushels on hand at December 31, 2001 were 65.4 million, slightly more inventory than at December 31, 2000.

The Processing segment had a sales increase of \$5.4 million, or 5%. The majority of this increase was attributable to increased price per ton sold in the lawn fertilizer division and a full twelve months of sales in 2001 of the U.S. ProTurf® product line, which was acquired from The Scotts Company on May 31, 2000. Volume decreased for the period in the consumer and industrial lawn fertilizer businesses (sold into the retail distribution channel) due to softness in the economy coupled with cold weather in much of the spring application season. The much smaller corncob-based businesses experienced a 16% increase in the average price per ton sold, partially offset by an 11% reduction in volume.

The Rail segment had a sales increase of \$12.1 million, or 64%. Railcar sales transactions completed during 2001 were up \$11.5 million, and lease fleet revenue was up \$1.0 million, or 8%. The lease fleet revenue growth was due to an increased number of railcars and locomotives managed and in service as compared to 2000. Railcars managed at December 31, 2001 numbered 5,432, an increase of approximately 13% over railcars managed at December 31, 2000. The segment also added 21 locomotives to its fleet.

The Retail segment experienced decreased sales of \$5.9 million, or 3%, in 2001 when compared to 2000. More than half of this decrease relates to an extra (or 53rd) week in the 2000 fiscal year. In addition, weather during the months of January and December in 2001 was mild and demand for our cold weather items was very limited. This is in contrast to the same months in 2000 where weather drove significant sales of cold weather items.

The absence of revenues in the Other segment for 2001 was due to the sale of the Company's interest in The Andersons-Tireman Auto Centers (Tireman), an automotive repair business, in 2000.

Gross profit for 2001 totaled \$159.3 million, an increase of \$2.4 million, or 2%, from 2000. The Agriculture segment had a gross profit increase of \$8.5 million, or 11%, resulting from a 28% increase in margin on grain bushels sold, a 14% increase in gross profit on fertilizer tons sold and the 6% increase in merchandising revenues discussed previously. As always, this segment's results are highly dependent on weather conditions during the spring planting season through fall harvest in the eastern corn belt.

Gross profit for the Processing segment decreased \$1.8 million, or 8%, from the prior year. This decrease resulted from a 6% decrease in gross profit per lawn fertilizer ton sold and a 6% decrease in lawn fertilizer volume. The decrease in gross profit per ton was primarily caused by high raw material costs coupled with a change in product mix in the 2001 spring season, as customers opted for lower margin products. Gross profit in the corncob-based businesses was up \$0.3 million, or 12%.

Gross profit in the Rail segment decreased \$1.0 million, or 12%, from the prior year. While gross profit from car sales, railcar repairs, the fabrication shop and lease transactions was up, the segment took a \$1.5 million charge to write down the book value of certain impaired railcars. The increased sales activity in the latter portion of the year and some indications of future long-term deals are positive indications that the industry is improving; however, the recovery has been slow. Customer preference and market rates are still more focused on short-term lease opportunities rather than long-term leases or outright sales.

Gross profit in the Retail segment decreased by \$2.0 million, or 4%, from 2000. Half of this decrease was related to the extra week in 2000 mentioned previously. The remainder was due to the decrease in sales discussed above. New competition is expected in the Toledo market in 2002.

Gross profit in the Other segment declined by \$1.5 million in 2001 over 2000 due to the Company's sale of its interest in Tireman in March 2000.

The Company recorded a gain of \$0.3 million in 2001 related to an insurance recovery for a damaged grain tank at the Albion, Michigan facility. A tank collapse at its Webberville, Michigan wholesale fertilizer facility resulted in a 2000 gain of \$2.1 million from an insurance settlement for the replacement of the fixed assets. In addition, the Company recognized a gain of \$1.0 million on the sale of its 52.5% interest in Tireman.

Operating, administrative and general expenses for 2001 totaled \$139.7 million, a \$1.8 million, or 1%, increase from 2000. The increase primarily reflects increased labor and benefits expenses including \$1.3 million in severance expense. Full-time employees decreased 4% from the prior year, with reductions in all segments and at the corporate level.

Interest expense for 2001 was \$11.6 million, a \$0.3 million, or 2%, decrease from 2000. Average daily short-term borrowings increased 1% from 2000 while the average short-term interest rate decreased from 6.95% in 2000 to 5.10% in 2001. However, the Company has increased its long-term debt (including current maturities) 14% from December 31, 2000 to December 31, 2001 and has seen a similar increase in its long-term interest expense.

Income before income taxes of \$11.9 million decreased \$2.5 million, or 17%, from the 2000 pretax income of \$14.4 million. Income tax expense was \$2.9 million, a \$1.4 million, or 33%, decrease from 2000. The effective tax rate decreased significantly from the 2000 rate of 29.8% to 24.2% in 2001. This significant decrease resulted primarily from an increased benefit from the Company's foreign sales corporation.

Management's Discussion & Analysis (Continued)

The Company recognized an after-tax charge of \$0.2 million to record the cumulative effect of adopting the new financial accounting standard on derivatives. As a result of the above, net income for 2001 decreased \$1.2 million, or 12%, from the \$10.1 million in 2000 to \$8.9 million in 2001. Basic earnings per share decreased \$0.12 from 2000 and diluted earnings per share decreased \$0.13 from 2000.

Liquidity and Capital Resources

The Company's operations (before changes in operating assets and liabilities) provided cash of \$29.9 million in 2002, an increase of \$6.0 million from 2001. Net working capital at December 31, 2002 was \$80.8 million, an increase of \$5.6 million from December 31, 2001.

The Company has significant short-term lines of credit available to finance working capital, primarily inventories and accounts receivable. Effective on November 1, 2002, the Company entered into a borrowing arrangement with a syndicate of banks which provides the Company with \$150 million in short-term lines of credit and an additional \$50 million in a three-year line of credit. Prior to the syndication agreement, the Company managed several separate short-term lines of credit. The Company had \$70.0 million outstanding on its short-term line of credit at December 31, 2002. Peak short-term borrowing during 2002 was \$139.2 million on February 25, 2002. In most years, the Company's highest borrowing occurs in the spring due to seasonal inventory requirements in the fertilizer and retail businesses, credit sales of fertilizer and a customary reduction in grain payables due to the cash needs and market strategies of grain customers.

The Company utilizes interest rate contracts to manage a portion of its interest rate risk on both its short and long-term debt and lease commitments. At December 31, 2002, the fair value of these derivative financial instruments recorded in the balance sheet (primarily interest rate swaps and interest rate caps) was a net liability of \$0.1 million.

Quarterly cash dividends of \$0.065 per common share were paid in 2002 and 2001. A cash dividend of \$0.07 per common share was declared on January 2, 2003 and was paid on January 22, 2003. The Company made income tax payments of \$2.5 million in 2002. During 2002, the Company issued approximately 132 thousand shares to employees and directors under its share compensation plans.

Total capital spending for 2002 on property, plant and equipment was \$9.8 million and included \$1.8 million for investments in facilities and expansion in the Agriculture Group, \$1.6 million for information systems and \$0.7 million for retail store improvements and additions. The remaining amount of \$5.7 million was spent on numerous assets and projects with no single project costing more than \$0.3 million. The Company also spent \$8.2 million in 2002 for the purchase of railcars and capitalized modifications on railcars that may then be sold, financed off-balance sheet or owned by the Company for lease to customers. The Company sold or financed \$16.0 million of railcars during 2002. Finally, the Company completed its minority investment in a new limited liability corporation specializing in grain trading with Lansing Grain Company in January, 2003.

Certain of the Company's borrowings include provisions that impose minimum levels of working capital and equity, impose limitations on additional debt and require that grain inventory positions be substantially hedged. In addition, certain of the Company's long-term borrowings are secured by first mortgages on various facilities or are collateralized by railcar assets. The Company was in compliance with all of these provisions at December 31, 2002.

The marketability of the Company's grain inventories and the availability of short-term lines of credit enhance the Company's liquidity. In the opinion of management, the Company's liquidity is adequate to meet short-term and long-term needs.

Contractual Obligations

Future payments due under contractual obligations at December 31, 2002 are as follows:

Contractual Obligations (in thousands)	Payments Due by Period				
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Long-term debt	\$ 9,454	\$14,915	\$16,600	\$48,928	\$ 89,897
Capital lease obligations	327	696	3,127	–	4,150
Operating leases	10,367	14,606	6,869	9,992	41,834
Other	200	400	400	–	1,000
Total contractual cash obligations	\$20,348	\$30,617	\$26,996	\$58,920	\$136,881

Included in long-term debt are acquisition liabilities that include minimum royalty payments. There are additional contingent sales-based royalty payments that have not triggered to date and which are not expected to be material to the Company if they trigger in the future. The royalty period ends May 2005.

The Company had standby letters of credit outstanding of \$19.2 million at December 31, 2002, of which \$8.5 million are credit enhancements for industrial revenue bonds included in the contractual obligations table above.

The Company's grain inventories include the value of forward purchase contracts to buy and, to a lesser extent, forward sale contracts to sell grain. These contracts are marked to the market price and require performance in future periods. The terms of these contracts are consistent with industry standards. These contractual obligations are not included in the preceding table.

Approximately 72% of the operating lease commitments above relate to 1,934 railcars that the Company leases from financial intermediaries. See the following section on Off-Balance Sheet Transactions.

The Company is subject to various loan covenants as highlighted previously. Although the Company is and has been in compliance with its covenants, noncompliance could result in default and acceleration of long-term debt payments. The Company does not anticipate noncompliance with its covenants.

Off-Balance Sheet Transactions

The Company's Rail Group utilizes leasing arrangements that provide off-balance sheet financing for its activities. The Company leases railcars from financial intermediaries under operating leases through sale-leaseback transactions, the majority of which involve operating leasebacks. Railcars owned by the Company, or leased by the Company from a financial intermediary, are generally leased to a customer under an operating lease. The Company also arranges non-recourse lease transactions under which it sells railcars or locomotives to a financial intermediary, and assigns the related operating lease to the financial intermediary on a non-recourse basis. In such arrangements, the Company generally provides ongoing railcar maintenance and management services for the financial intermediary, and receives a fee for such services. On most of the railcars and locomotives, the Company holds an option to purchase these assets at the end of the lease.

Management's Discussion & Analysis (Continued)

The following table describes the railcar and locomotive positions at December 31, 2002.

<i>Method of Control</i>	<i>Financial Statement</i>	<i>Number</i>
Owned-railcars available for sale	On balance sheet – current	144
Owned-railcar assets leased to others	On balance sheet – non-current	2,124
Railcars leased from financial institutions	Off balance sheet	1,934
Railcars – non-recourse arrangements	Off balance sheet	1,497
Total Railcars		5,699
Locomotives – non-recourse arrangements	Off balance sheet	51

The Company has future lease payment commitments aggregating \$30.1 million for the railcars leased by the Company from financial intermediaries under various operating leases. Remaining lease terms vary with none exceeding 10 years. The majority of these railcars have been leased to customers at December 31, 2002 over similar terms. The segment manages risk by matching lease commitments with funding (where possible) and ongoing evaluation of lessee credit worthiness. In addition, the Company prefers non-recourse lease transactions, whenever possible, in order to minimize its credit risk.

Critical Accounting Policies

The Company marks all grain inventory, forward purchase and sale contracts for grain, and exchange-traded futures and options contracts to the market. Changes in market value are recorded as merchandising revenues in the statement of operations. Because the Company marks inventories and sales commitments to the market, gross profit on a grain sale transaction is recognized when a contract for sale of the grain is executed. The related revenue is recognized upon shipment of the grain, at which time title transfers and customer acceptance occurs.

The Company has a marketing agreement that covers certain of its grain facilities. This five-year agreement, which expires in May 2003, includes a base-level income guarantee and equal sharing of income over that base level. There is also a look-back provision that places at risk any income in excess of the base level for the term of the agreement upon the occurrence of certain circumstances. The Company has recognized in income the base level guarantee amount for each year of the agreement and spreads its share of the amount in excess of the base level on a pro rata basis over all future periods covered by the agreement. At December 31, 2002, the Company had completed 55 months under the agreement and had current deferred income of approximately \$1.5 million. If the facilities' performance drops below the base-level income guarantee for the remaining 5 months of the contract, the Company is at risk for not realizing a portion of this deferred income. If performance is at or greater than the base-level guarantee, the Company will recognize over the next 5 months the remaining income it has deferred.

Quantitative and Qualitative Disclosures About Market Risk

The market risk inherent in the Company's market risk-sensitive instruments and positions is the potential loss arising from adverse changes in commodity prices and interest rates as discussed below.

Commodity Prices

The availability and price of agricultural commodities are subject to wide fluctuations due to unpredictable factors such as weather, plantings, government (domestic and foreign) farm programs and policies, changes in global demand created by population growth and higher standards of living, and global production of similar and competitive crops. To reduce price risk caused by market fluctuations, the Company follows a policy of hedging its inventories and related purchase and sale contracts. The instruments used are exchange-traded futures and options contracts that function as hedges. The market value of exchange-traded futures and options used for hedging has a high, but not perfect correlation, to the underlying market value of grain inventories and related purchase and sale contracts. The less correlated portion of inventory and purchase and sale contract market value (known as

basis) is much less volatile than the overall market value of exchange-traded futures and tends to follow historical patterns. The Company manages this less volatile risk using its daily grain position report to constantly monitor its position relative to the price changes in the market. The Company's accounting policy for its futures and options hedges, as well as the underlying inventory positions and purchase and sale contracts, is to mark them to the market price daily and include gains and losses in the statement of income in sales and merchandising revenues.

A sensitivity analysis has been prepared to estimate the Company's exposure to market risk of its commodity position (exclusive of basis risk). The Company's daily net commodity position consists of inventories, related purchase and sale contracts and exchange-traded contracts. The fair value of the position is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures market prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in such prices. The result of this analysis, which may differ from actual results, is as follows:

December 31

(in thousands)	2002	2001
Net (short) long position	(\$2,302)	\$3,659
Market risk	230	366

Interest Rates

The fair value of the Company's long-term debt is estimated using quoted market prices or discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. In addition, the Company has derivative interest rate contracts recorded in its balance sheet at their fair value. The fair value of these contracts is estimated based on quoted market termination values. Market risk, which is estimated as the potential increase in fair value resulting from a hypothetical one-half percent decrease in interest rates, is summarized below:

December 31

(in thousands)	2002	2001
Fair value of long-term debt and interest rate contracts	\$96,358	\$104,102
Fair value in excess of carrying value	2,236	2,344
Market risk	1,893	2,253

Forward Looking Statements

The preceding Management's Discussion and Analysis contains various "forward-looking statements" which reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties, including but not limited to those identified below, which could cause actual results to differ materially from historical results or those anticipated. The words "believe," "expect," "anticipate," "will" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following factors could cause actual results to differ materially from historical results or those anticipated: weather; supply and demand of commodities including grains, fertilizer and other basic raw materials; market prices for grains and the potential for increased margin requirements; environmental and governmental policies; competition; economic conditions; risks associated with acquisitions; interest rates; and income taxes.

Notes To Consolidated Financial Statements

1. Basis of Financial Presentation / Acquisitions

These consolidated financial statements include the accounts of The Andersons, Inc. and its wholly-owned and majority-owned subsidiaries (the "Company"). All significant intercompany accounts and transactions are eliminated in consolidation.

On May 31, 2000, the Company acquired inventory and intangible assets of the U.S. ProTurf® division of The Scotts Company. The acquisition was accounted for as a purchase, and the results of operations have been included in the consolidated statements of income from June 1, 2000. This transaction was completed through a combination of cash paid and liabilities assumed with a total purchase price of approximately \$19.8 million. Of this amount, \$15.0 million was allocated to inventory and the remainder to goodwill and other intangible assets. The purchase agreement provides for additional payments to the seller through 2005 if the sales volume of the acquired business exceeds certain targets. These payments, if any, will be accounted for as additional purchase price; no such payments have been made since the acquisition to date. If the acquisition had taken place on January 1, 2000, pro forma revenues (unaudited) would have been \$993.0 million for the year ended December 31, 2000. The business has been integrated into the Company's Processing segment and is expected to result in significantly different cost and expense structures. Therefore, pro forma operating income, net income and earnings per common share are not presented, as they are not meaningful.

2. Summary of Significant Accounting Policies

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid debt instruments purchased with an initial maturity of three months or less. The carrying values of these assets approximate their fair values.

Inventories and Inventory Commitments

Grain inventories include owned bushels of grain, the value of forward contracts to buy and sell grain, and exchange traded futures and option contracts used to hedge the value of both owned grain and forward contracts. Each of these grain inventory components is marked to the market price. The forward contracts require performance in future periods. Contracts to purchase grain from producers generally relate to the current or future crop years for delivery periods quoted by regulated commodity exchanges. Contracts for the sale of grain to processors or other consumers generally do not extend beyond one year. The terms of contracts for the purchase and sale of grain are consistent with industry standards.

All other inventories are stated at the lower of cost or market. Cost is determined by the average cost method.

Derivatives - Commodity and Interest Rate Contracts

For the purpose of hedging its market price risk exposure on grain owned and related forward grain purchase and sale contracts, the Company holds regulated commodity futures and options contracts for corn, soybeans, wheat and oats. The Company accounts for all commodity contracts using a daily mark-to-market method, the same method it uses to value grain inventory and forward purchase and sale contracts. Company policy limits the Company's unhedged grain position. While the Company considers all of its commodity contracts to be effective economic hedges, the Company does not designate or

account for its commodity contracts as hedges. Realized and unrealized gains and losses in the value of commodity contracts (whether due to changes in commodity prices or due to sale, maturity or extinguishment of the commodity contract), grain inventories and related forward grain contracts are included in sales and merchandising revenues in the statements of income.

The Company also periodically enters into interest rate contracts to manage interest rate risk on borrowing or financing activities. The Company accounts for its long-term interest rate swap, Treasury rate lock and interest rate corridor contracts as cash flow hedges; accordingly, changes in the fair value of the instruments are recognized in other comprehensive income. While the Company considers all of its derivative positions to be effective economic hedges of specified risks, the Company does not designate or account for other open interest rate contracts as hedges. Changes in the market value of all other interest rate contracts are recognized currently in income. Upon termination of a derivative instrument or a change in the hedged item, any remaining fair value recorded on the balance sheet is immediately recorded as interest expense. The deferred derivative gains and losses on closed Treasury rate locks and the changes in fair value of the interest rate corridors are reclassified into income over the term of the underlying hedged items, which are either long-term debt or lease contracts.

At January 1, 2001, the Company recorded in the statement of income a transition adjustment of \$305 thousand (\$185 thousand after tax) as a result of adopting Financial Accounting Standards Board (FASB) Statement No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities." This adjustment was made to write down open interest rate contracts to their fair values. The Company also reclassified deferred net losses of \$1.2 million to other comprehensive income. This amount represented deferred net losses on the settlement of Treasury rate locks entered into for the purpose of hedging the interest rate component of firm commitment lease transactions. The deferred losses will be recognized as a component of gross profit over the term of the underlying leases.

During 2002, the Company reclassified \$0.2 million of other comprehensive income into rail lease cost of sales under the reclassification policy noted above for amortization of the closed Treasury rate locks. Less than \$0.1 million was reclassified to interest expense as a result of amortization of other comprehensive income from the change in fair value of the interest rate corridors.

Prior to the adoption of Statement No. 133, the Company recognized income or expense associated with interest rate swap contracts on the accrual basis over the term of the agreement as interest expense. The cost of short-term interest rate caps was expensed at the date of purchase, and the cost of long-term interest rate caps was expensed over the term of the underlying obligation. Gains or losses on settlement of Treasury rate locks hedging the interest component of firm commitment lease transactions were recognized over the term of the ensuing lease transaction. The fair value of interest rate contracts was not recognized in the balance sheet prior to 2001.

Railcars Available for Sale

The Company's Rail segment purchases, leases, markets and manages railcars for third parties and for internal use. Railcars to which the Company holds title are shown on the balance sheet in one of two categories – railcars available for sale or railcar assets leased to others. Railcars that have been acquired but have not been placed in service are classified as current assets and are stated at the lower of cost or market. Railcars leased to others, both on short- and long-term leases, are classified as long-term assets and are depreciated over their estimated useful lives. Details about the Rail segment's leasing activities are presented in the Leases and Related Commitments note.

Notes To Consolidated Financial Statements (Continued)

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Repairs and maintenance are charged to expense as incurred, while betterments that extend useful lives are capitalized. Depreciation is provided over the estimated economic useful lives of the individual assets, principally by the straight-line method. Estimated useful lives are generally as follows: land improvements and leasehold improvements – 10 to 16 years; buildings and storage facilities – 20 to 30 years; machinery and equipment – 3 to 20 years; and software – 3 to 10 years. The cost of assets retired or otherwise disposed of and the accumulated depreciation thereon are removed from the accounts, with any gain or loss realized upon sale or disposal credited or charged to operations.

Intangible Assets and Goodwill

Intangible assets, primarily purchased intangible assets resulting from business acquisitions, are amortized over the estimated period of benefit (generally 5 years) by the straight-line method. Intangible assets of \$3.4 million and \$4.2 million at December 31, 2002 and 2001, respectively, are included in Other assets and notes receivable in the balance sheet. Accumulated amortization at December 31, 2002 and 2001 was \$2.6 million and \$1.8 million, respectively.

Prior to 2002, goodwill was amortized on a straight-line basis over the estimated period of benefit, ranging from 5 to 12 years.

The Company adopted the provisions of FASB Statement No. 142, "Goodwill and Other Intangible Assets," (Statement No. 142) on January 1, 2002. In connection with the adoption of this statement, the Company ceased amortization of goodwill, and evaluated its remaining goodwill, with net book value of \$1.3 million, for impairment. The adoption of Statement 142 eliminated annual goodwill amortization of \$0.2 million.

With the adoption of Statement No. 142, the Company annually evaluates recorded goodwill for impairment utilizing a fair value methodology. Recorded goodwill relates primarily to the Company's Processing Group. The Company's goodwill was not impaired upon adoption of Statement No. 142 or at December 31, 2002.

Impairment of Long-lived Assets

Long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of the assets to the future net cash flows the Company expects to generate with the asset. If such assets are considered to be impaired, the Company recognizes impairment expense for the amount by which the carrying amount of the assets exceeds the fair value of the assets. The Company recognized impairment losses on long-term railcars of \$0.3 million in both 2002 and 2001 in cost of sales. The Company also recognized a \$0.2 million impairment on an agricultural facility in 2002, which was included in operating, administrative and general expenses. In addition, in 2001, the Company recorded a \$1.2 million lower of cost or market adjustment for railcars classified as available for sale.

Accounts Payable for Grain

Accounts payable for grain includes the liability for grain purchases on which price has not been established (delayed price). This amount has been computed on the basis of market prices at the balance sheet date, adjusted for the applicable premium or discount.

Deferred Income

Certain of the Company's agriculture facilities are subject to a five-year marketing agreement with a third party that provides for a base-level income guarantee and equal sharing of income earned over the base level. The marketing agreement includes a look-back provision that places at risk any income in excess of the base level for the term of the agreement. The Company recognizes the base-level income guarantee as revenue on a pro rata basis over the remaining life of the agreement.

The Company measures its share of the cumulative income over the base-level income guarantee at the end of each contract year and recognizes such income on a pro rata basis over the life of the agreement. The marketing agreement will terminate in May 2003. Deferred income at December 31, 2002 and 2001 was \$1.5 million and \$5.4 million, respectively.

Stock-Based Compensation

The Company accounts for its stock-based compensation plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Company has adopted the disclosure only provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation." Accordingly, the Company provides pro forma disclosures assuming that the Company had accounted for its stock-based compensation programs using the fair value method promulgated by Statement No. 123.

	Year Ended December 31		
(in thousands, except for per share data)	2002	2001	2000
Net income, as reported	\$13,319	\$ 8,857	\$10,078
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(316)	(318)	(363)
Pro forma net income	\$13,003	\$ 8,539	\$ 9,715
Earnings per share:			
Basic – as reported	\$1.83	\$1.22	\$1.34
Basic – pro forma	\$1.79	\$1.17	\$1.29
Diluted – as reported	\$1.79	\$1.21	\$1.34
Diluted – pro forma	\$1.75	\$1.17	\$1.29

Revenue Recognition

Sales of products are recognized at the time of shipment. Under the Company's mark-to-market method for its grain operations, gross profit on grain sales is recognized when sales are contracted. Revenues from other merchandising activities are recognized as open grain contracts are marked-to-market or as services are provided. Sales returns and allowances are provided for at the time sales are recorded. Shipping and handling costs are included in cost of sales.

Sales of railcars, including railcars sold in non-recourse lease transactions, are recorded as revenue on the date of sale. Sales for these transactions totaled \$0.1 million, \$15.3 million and \$3.8 million in 2002, 2001 and 2000, respectively.

Lease Accounting

The Company accounts for its leases under FASB Statement No. 13, as amended, and related pronouncements.

The Company's Rail segment leases and manages railcars for third parties, and leases railcars for internal use. The Company is an operating lessor of railcars that are owned by the Company, or leased by the Company from financial intermediaries. The Company records lease income for its activities as an operating lessor as earned, which is generally spread evenly over the lease term. The Company expenses operating lease payments made to financial intermediaries on a straight-line basis over the lease term. The Company periodically enters into leases with Rail Group customers that are classified as direct financing capital leases. Although lease terms are not significantly different from other operating leases that the Company maintains with its railcar customers, they qualify as capital leases. For these leases, the net minimum lease payments, net of unearned income is included in prepaid expenses and other current assets for the amount to be received within one year and the remainder in other assets.

Notes To Consolidated Financial Statements (Continued)

The Company also arranges non-recourse lease transactions under which it sells railcars or locomotives to financial intermediaries and assigns the related operating lease on a non-recourse basis. The Company generally provides ongoing railcar maintenance and management services for the financial intermediaries, and receives a fee for such services when earned. On the date of sale, the Company recognizes the proceeds from sales of railcars in non-recourse lease transactions as revenue. Management and service fees are recognized as revenue, which is generally spread evenly over the lease term.

Income Taxes

Income tax expense for each period includes taxes currently payable plus the change in deferred income tax assets and liabilities. Deferred income taxes are provided for temporary differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws governing periods in which the differences are expected to reverse. The Company evaluates the realizability of deferred tax assets and provides a valuation allowance for amounts that management does not believe are more likely than not to be recoverable, as applicable.

Advertising

Advertising costs are expensed as incurred. Advertising expense of \$2.2 million in 2002 and \$2.8 million in each of 2001 and 2000 is included in operating, administrative and general expenses.

Earnings per Share

Basic earnings per share is equal to net income divided by weighted average shares outstanding. Diluted earnings per share is equal to basic earnings per share plus the incremental per share effect of dilutive options and restricted shares.

	Year ended December 31		
(in thousands, except for per share data)	2002	2001	2000
Income before cumulative effect of accounting change	\$13,319	\$9,042	\$10,078
Cumulative effect of change in accounting principle, net of income tax benefit	—	(185)	—
Net income	\$13,319	\$8,857	\$10,078
Basic earnings per share:			
Income before cumulative effect of accounting change	\$1.83	\$1.24	\$1.34
Cumulative effect of change in accounting principle, net of income tax benefit	—	(0.02)	—
Net income	\$1.83	\$1.22	\$1.34
Diluted earnings per share:			
Income before cumulative effect of accounting change	\$1.79	\$1.24	\$1.34
Cumulative effect of change in accounting principle, net of income tax benefit	—	(0.03)	—
Net income	\$1.79	\$1.21	\$1.34
Weighted average shares outstanding - basic	7,283	7,281	7,507
Restricted shares and shares contingently issuable upon exercise of options	146	35	18
Weighted average shares outstanding - diluted	7,429	7,316	7,525

Diluted earnings per common share excludes the impact of 1 thousand, 260 thousand and 634 thousand employee stock options for 2002, 2001 and 2000, respectively, as such options were antidilutive.

New Accounting Standards

The FASB has issued Statement No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which is effective for the Company's 2002 fiscal year. This statement requires additional disclosures about the Company's stock-based compensation plans which are included in this note.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 clarifies disclosures that are required to be made for certain guarantees and establishes a requirement to record a liability at fair value for certain guarantees at the time of the guarantee's issuance. The disclosure requirements of FIN No. 45 have been applied in these financial statements. The requirement to record a liability applies to guarantees issued or modified after December 31, 2002. We do not believe the adoption of this portion of the interpretation will have a material effect on our financial condition or results of operations.

The FASB also issued the following statements in 2002. These statements each require prospective application.

- Statement No. 145, "Rescission of FASB Statements Nos. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" amends or corrects a variety of existing rules. The Company does not expect to be materially impacted by this statement.
- Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," addresses the accounting and reporting of costs associated with exit or disposal activities. The Company does not expect to be materially impacted by this statement.
- Statement No. 147, "Accounting Acquisitions of Certain Financial Institutions," amends previous guidance on this topic. The Company does not expect to be impacted by this statement.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 provides guidance on identification of a variable interest entity ("VIE") and on determination of whether the VIE should be consolidated in an enterprise's financial statements. In general, an enterprise deemed to be the primary beneficiary of a VIE is required to consolidate the VIE. FIN No. 46 is effective immediately for any new VIE established after January 31, 2003 and must be adopted for any pre-existing VIEs at the beginning of the Company's third quarter.

The Company's railcar leasing activities, as described above, include transactions with financial intermediaries that may constitute variable interest entities under the guidance of FIN No. 46. Management has not completed its evaluation of these arrangements to determine whether any of these arrangements involve a VIE or, if a VIE exists, whether the Company is the primary beneficiary of the VIE. Therefore, management has not determined the impact of FIN No. 46 on the Company's financial statements.

Reclassifications

Certain amounts in the 2001 and 2000 financial statements have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on net income or shareholders' equity as previously presented.

Notes To Consolidated Financial Statements (Continued)

3. Inventories

Major classes of inventories are as follows:

(in thousands)	December 31	
	2002	2001
Grain	\$ 156,742	\$ 140,316
Agricultural fertilizer and supplies	25,699	24,240
Lawn and garden fertilizer and corncob products	42,947	43,440
Railcar repair parts	1,455	1,401
Retail merchandise	29,076	28,539
Other	356	355
	<u>\$ 256,275</u>	<u>\$ 238,291</u>

4. Property, Plant and Equipment and Railcar Assets Leased to Others

The components of property, plant and equipment and railcar assets leased to others are as follows:

(in thousands)	December 31	
	2002	2001
Land	\$ 11,735	\$ 11,758
Land improvements and leasehold improvements	29,122	27,937
Buildings and storage facilities	95,892	94,309
Machinery and equipment	121,911	119,460
Software	4,771	3,714
Construction in progress	2,369	4,144
	<u>265,800</u>	<u>261,322</u>
Less accumulated depreciation and amortization	<u>172,861</u>	<u>166,321</u>
	<u>\$ 92,939</u>	<u>\$ 95,001</u>
 Railcar assets leased to others	 \$ 32,144	 \$ 30,585
Less accumulated depreciation	5,745	4,483
	<u>\$ 26,399</u>	<u>\$ 26,102</u>

On December 31, 2001, the Company entered into a sale-leaseback transaction with a financial institution; the Company accounts for its leaseback as a capital lease. These assets have a cost of \$4.5 million and are included with other railcars above for both 2002 and 2001. Accumulated amortization for these assets was \$0.3 million at December 31, 2002.

5. Nonoperating Gains

During 2002, a conference facility owned by the Company was damaged by fire. This facility was insured for replacement value and the Company received insurance funds to repair the damaged assets. The 2002 gain of \$0.3 million represents the insurance proceeds received in 2002 in excess of the net book value of the destroyed assets.

During 2000, a grain tank and related assets at the Company's Albion, Michigan facility were destroyed in a windstorm. This facility was insured for replacement value and the Company received insurance funds to replace the assets lost. The 2001 gain of \$0.3 million represents the insurance proceeds received in 2001 in excess of the net book value of the destroyed assets.

In March 2000, the Company sold its interest in The Andersons – Tireman Auto Centers, a joint venture in which it owned a 52.5% interest. The 2000 gain on sale of business of \$1.0 million represents proceeds received in excess of the Company's investment. This business was previously included in the Company's financial statements and reported in the Other segment in the Company's segment data.

During 2000, the Company completed the settlement of an insurance claim related to the 1999 collapse of a liquid fertilizer tank and adjoining assets at its Webberville, Michigan facility. The resultant gain of \$2.1 million represents the insurance proceeds in excess of the net book value of the destroyed assets.

Notes To Consolidated Financial Statements (Continued)

6. Short-Term Borrowing Arrangements

During 2002, the Company entered into a borrowing arrangement with a syndicate of banks. The new arrangement provides the Company with \$150 million in short-term lines of credit and an additional \$50 million in a three-year line of credit. Short-term borrowings under this arrangement totaled \$70.0 million at December 31, 2002. The borrowing arrangement terminates on October 29, 2003 but allows for indefinite renewals at the Company's option and as long as certain covenants are met. Management expects to renew the arrangement prior to its termination date. Borrowings under the lines of credit bear interest at variable interest rates, which are based on LIBOR, the prime rate or the federal funds rate, plus a spread. The terms of the borrowing agreement provide for annual commitment fees. Prior to this syndication, the Company managed several separate lines of credit for unsecured short-term debt with banks. The following information relates to short-term borrowings:

(in thousands, except percentages)	December 31		
	2002	2001	2000
Maximum amount borrowed	\$139,200	\$130,400	\$113,800
Average daily amount borrowed	92,534	91,014	89,798
Weighted average interest rate	3.24%	5.10%	6.95%

7. Long-Term Debt and Interest Rate Contracts

Long-term debt consists of the following:

(in thousands, except percentages)	December 31	
	2002	2001
Note payable, 6.50%, payable \$162 monthly, remainder due 2017	\$ 17,758	\$ –
Note payable, 6.95%, payable \$317 quarterly, remainder due 2008	16,147	17,415
Note payable, 7.00%, payable \$316 quarterly beginning in 2004, due 2016	10,681	10,681
Note payable, variable rate (2.76% at December 31, 2002), payable \$150 first and second quarters and \$99 third and fourth quarters of 2003, with decreasing quarterly payments thereafter, due 2005	6,787	7,750
Note payable under revolving line of credit	–	15,000
Notes payable, variable rate, due 2002	–	1,657
Industrial development revenue bonds:		
Variable rate (1.68% at December 31, 2002), due 2019	4,650	4,650
Variable rate	–	1,944
Variable rate (1.70% at December 31, 2002), due 2025	3,100	3,100
Liabilities related to acquisition, discounted at 8.25%, due in variable quarterly installments through 2005	2,651	3,188
Debenture bonds, 5.50% to 8.50%, due 2003 through 2012	27,628	31,250
Obligations under capital lease	4,150	4,473
Other notes payable and bonds	495	582
	94,047	101,690
Less current maturities	9,775	10,374
	<u>\$84,272</u>	<u>\$91,316</u>

In connection with its short-term borrowing agreement with a syndicate of banks, the Company obtained an unsecured \$50.0 million long-term line of credit. Borrowings under this line of credit will bear interest based on LIBOR, plus a spread. The long-term line of credit expires on October 30, 2005, but may be renewed by the Company for an additional three years as long as covenants are met. After considering its standby letters of credit totaling \$19.2 million, the Company had available borrowing capacity under this facility of \$30.8 million.

The notes payable due 2008, 2016 and 2017 and the industrial development revenue bonds are collateralized by first mortgages on certain facilities and related equipment with a book value of \$29.2 million. The note payable due 2005 is collateralized by railcars with a book value of \$6.8 million.

The Company's short-term and long-term borrowing agreements include both financial and non-financial covenants that require the Company, among other things, to:

- maintain minimum working capital of \$45.0 million and net equity (as defined) of \$65.0 million;
- limit the addition of new long-term debt;
- limit its unhedged grain position to 2.0 million bushels; and
- restrict the amount of dividends paid.

Notes To Consolidated Financial Statements (Continued)

The Company was in compliance with all covenants at December 31, 2002 and 2001.

The aggregate annual maturities of long-term debt, including sinking fund requirements and capital lease obligations, are as follows: 2003--\$9.8 million; 2004--\$5.5 million; 2005--\$10.1 million; 2006--\$11.6 million; 2007--\$8.0 million; and \$49.0 million thereafter.

Interest paid (including interest on short-term lines of credit) amounted to \$9.7 million, \$10.1 million and \$11.5 million in 2002, 2001 and 2000, respectively.

The Company has entered into derivative interest rate contracts to manage interest rate risk on short-term borrowings. The contracts convert variable interest rates to short-term fixed rates, consistent with projected borrowing needs. At December 31, 2002, the Company has two short-term interest rate cap agreements with a total notional amount of \$20.0 million to hedge short-term borrowing costs. These agreements provide interest rate caps of between 2.75% and 3.00% and expire on April 1, 2003. Although these instruments are intended to hedge interest rate risk on short-term borrowings, the Company has elected not to account for them as hedges. Changes in their fair value are included in interest expense in the statements of income.

The Company has also entered into various derivative financial instruments to hedge the interest rate component of long-term debt and lease obligations. The following table displays the contracts open at December 31, 2002.

<i>Interest Rate Hedging Instrument</i>	<i>Year Entered</i>	<i>Year of Maturity</i>	<i>Initial Notional Amount (in millions)</i>	<i>Hedged Item</i>	<i>Interest Rate</i>
Cap	1999	2003	\$19.4	Interest rate component of an operating lease – not accounted for as a hedge	6.50%
Cap	2000	2005	\$12.5	Interest rate component of a long-term note payable – not accounted for as a hedge	7.66%
Swap	2001	2004	\$14.6	Convert floating interest rate component of an operating lease to a fixed rate	3.27%
Corridor	2002	2006	\$4.8	Interest rate component of a railcar debt financing	4.25% – 7.00%
Corridor	2002	2007	\$4.3	Interest rate component of a railcar sale-leaseback transaction	4.25% – 7.00%

The initial notional amounts on the above instruments amortize monthly in the same manner as the underlying hedged item. Changes in the fair value of the caps are included in interest expense in the statements of income, as they are not accounted for as cash flow hedges. The swap and the interest rate corridors are designated as cash flow hedges with changes in their fair values included as a component of other comprehensive income or loss. Also included in accumulated other comprehensive income are closed treasury rate locks entered into to hedge the interest rate component of railcar lease transactions prior to their closing. The reclassification of these amounts from other comprehensive income into interest or cost of railcar sales occurs over the term of the hedged debt or lease, as applicable.

The fair values of all derivative instruments are included in other assets and notes receivable or other long-term liabilities. The net fair value amount for 2002 and 2001 was less than \$0.1 million. The mark-to-market effect of long-term and short-term interest rate contracts on interest expense was \$0.1 million interest credit and \$0.2 million additional interest expense for 2002 and 2001, respectively. If there are no additional changes in fair value, the Company expects to reclassify \$0.3 million from other comprehensive income into interest expense or cost of railcar sales in 2003.

Notes To Consolidated Financial Statements (Continued)

8. Income Taxes

Income tax provision (benefit) consists of the following:

(in thousands)	Year ended December 31		
	2002	2001	2000
Current:			
Federal	\$ 3,606	\$ 3,311	\$ 2,219
State and local	200	117	(175)
	<u>3,806</u>	<u>3,428</u>	<u>2,044</u>
Deferred:			
Federal	2,560	(496)	1,935
State and local	149	(43)	307
	<u>2,709</u>	<u>(539)</u>	<u>2,242</u>
Total:			
Federal	6,166	2,815	4,154
State and local	349	74	132
	<u>\$ 6,515</u>	<u>\$ 2,889</u>	<u>\$ 4,286</u>

A reconciliation from the statutory U.S. federal tax rate to the effective tax rate follows:

	Year ended December 31		
	2002	2001	2000
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
Increase (decrease) in rate resulting from:			
Effect of commissions paid to foreign sales corporation or excluded extraterritorial income	(3.2)	(11.3)	(5.8)
State and local income taxes, net of related federal taxes	1.1	0.4	0.6
Other, net	(0.1)	0.1	—
Effective tax rate	<u>32.8%</u>	<u>24.2%</u>	<u>29.8%</u>

Income taxes paid in 2002, 2001 and 2000 were \$2.5 million, \$4.3 million, and \$3.3 million, respectively.

Significant components of the Company's deferred tax liabilities and assets are as follows:

(in thousands)	December 31	
	2002	2001
Deferred tax liabilities:		
Property, plant and equipment and railcar assets leased to others	\$ (14,084)	\$ (12,898)
Prepaid employee benefits	(3,857)	(2,949)
Other	(344)	(202)
	<u>(18,285)</u>	<u>(16,049)</u>
Deferred tax assets:		
Employee benefits	6,469	5,384
Deferred income	2,402	1,450
Accounts and notes receivable	1,246	1,289
Inventory	947	2,456
Investments	13	353
Other	348	433
	<u>11,425</u>	<u>11,365</u>
Net deferred tax liability	<u>\$ (6,860)</u>	<u>\$ (4,684)</u>

In 2002 and 2001, the Company recorded deferred tax assets of \$0.5 million and \$0.1 million, respectively, related to the accounting for derivatives under Statement 133. The 2002 amount is included in other comprehensive income in the statement of shareholders' equity. The 2001 amount is included in the statement of income as a cumulative effect of change in accounting principle.

9. Stock Compensation Plans

The Company's Amended and Restated Long-Term Performance Compensation Plan dated December 14, 2001 (the LT Plan) authorizes the Board of Directors to grant options and share awards to employees and outside directors for up to 2.1 million of the Company's common shares. Options granted under the LT Plan have a maximum term of 10 years. Options granted to outside directors have a fixed term of five years and vest after one year. Options granted to management personnel under the LT Plan have a five-year term and vest 40% immediately, an additional 30% after one year and the remaining 30% after two years. Options granted under the LT Plan are structured as fixed grants with exercise price equal to the market value of the underlying stock on the date of the grant; accordingly, no compensation expense is recognized for these grants.

Notes To Consolidated Financial Statements (Continued)

The LT Plan also permits awards of restricted stock. The Company issued 15 thousand, 21 thousand and 20 thousand restricted shares during 2002, 2001 and 2000, respectively; 23 thousand restricted shares remain outstanding at December 31, 2002. These shares carry voting and dividend rights; however, sale of the shares is restricted prior to vesting. Restricted shares vest 50% after one year and the remaining 50% after two years. Restricted shares issued under the LT Plan are recorded at their fair value on the grant date with a corresponding charge to shareholders' equity representing the unearned portion of the award. The unearned portion is amortized as compensation expense on a straight-line basis over the related vesting period. Compensation expense related to restricted stock issued under the LT Plan amounted to \$0.2 million in each of 2002, 2001 and 2000.

Certain Company executives and outside directors have elected to receive a portion of their cash compensation in stock options and/or restricted stock issued under the LT Plan. These options and restricted stock vest immediately. The options have a ten-year term. There were 3 thousand, 6 thousand and 4 thousand restricted shares issued in lieu of cash compensation in 2002, 2001 and 2000, respectively and 10 thousand options issued in 2002.

The Company's Employee Share Purchase Plan (the ESP Plan) allows employees to purchase common shares through payroll withholdings. The Company has reserved 300 thousand common shares for issuance to and purchase by employees under this plan. The ESP Plan also contains an option component. The purchase price per share under the ESP Plan is the lower of the market price at the beginning or end of the year. Employees purchased 25 thousand, 33 thousand and 33 thousand shares under the ESP Plan in 2002, 2001 and 2000, respectively. The Company records a liability for withholdings not yet applied towards the purchase of common stock. No compensation expense is recognized for stock purchases or options under the ESP Plan.

Pro forma information regarding net income and earnings per share required by Statement No. 123, "Accounting for Stock-Based Compensation," is included in note 2 and is determined as if the Company accounted for its employee stock options under the fair value method. The fair value of each option grant is estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions by year.

	2002	2001	2000
Long Term Performance Compensation Plan			
Risk free interest rate	4.42%	4.99%	6.36%
Dividend yield	2.60%	3.01%	2.91%
Volatility factor of the expected market price of the Company's common shares	.300	.267	.276
Expected life for the options (in years)	5.30	5.00	5.00
Employee Share Purchase Plan			
Risk free interest rate	2.17%	5.32%	5.98%
Dividend yield	2.60%	3.01%	2.91%
Volatility factor of the expected market price of the Company's common shares	.300	.267	.276
Expected life for the options (in years)	1.00	1.00	1.00

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

A summary of the Company's stock option activity and related information for the years ended December 31 follows:

Long-Term Performance Compensation Plan

(common shares in thousands)

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	915	\$ 9.18	862	\$ 9.24	671	\$ 9.60
Granted	171	10.00	224	8.63	229	8.25
Exercised	(239)	9.14	(93)	8.83	—	—
Expired/forfeited	(39)	9.12	(78)	8.68	(38)	9.59
Outstanding at end of year	<u>808</u>	<u>\$ 9.37</u>	<u>915</u>	<u>\$ 9.18</u>	<u>862</u>	<u>\$ 9.24</u>

Notes To Consolidated Financial Statements (Continued)

	2002	2001	2000
Weighted average fair value of options granted during year	\$2.62	\$2.00	\$2.18
Options exercisable at end of year	662	732	687
Weighted average exercise price of options exercisable at end of year	\$9.35	\$9.35	\$9.27
Options available for grant at December 31, 2002	851		
Price range of options at December 31, 2002	\$8.25 to \$12.38		
Weighted average remaining contractual life (in years)	3.61		

10. Other Commitments and Contingencies**Railcar leasing activities:**

The Company is a lessor of railcars. The majority of railcars are leased to customers under operating leases that may be either net leases or full service leases under which the Company provides maintenance and fleet management services. The Company also provides such services to financial intermediaries to which it has sold railcars and locomotives in non-recourse lease transactions. Fleet management services generally include maintenance, escrow, tax filings and car tracking services.

Many of the Company's leases provide for renewals. The Company also generally holds purchase options for railcars it has sold and leased-back from a financial intermediary, and railcars sold in non-recourse lease transactions.

Lease income from operating leases to customers and rental expense for railcar leases were as follows:

	2002	Year ended December 31 2001	2000
(in thousands)			
Rental and service income – operating leases	\$ 11,521	\$ 9,896	\$ 9,497
Rental expense	\$ 5,007	\$ 4,387	\$ 4,778

Future minimum rentals and service income for all noncancelable railcar operating leases greater than one year are as follows:

	Future rental and service income— operating leases	Future minimum rental expense
(in thousands)		
Year ended December 31		
2003	\$ 10,936	\$ 6,795
2004	8,191	5,630
2005	6,307	3,803
2006	4,644	2,808
2007	3,651	2,362
Future years	12,162	8,707
	\$45,891	\$30,105

Direct Financing Lease:

During 2002, the Company entered into a direct financing lease with a railcar customer. Future minimum lease payments to be received under this lease, net of executory costs, aggregated \$2.5 million at December 31, 2002. The Company's net investment in the lease of \$0.9 million is included as \$0.8 million in other assets on the balance sheet and \$0.1 million in prepaid expenses and other current assets.

Other Leasing Activities:

The Company, as a lessee, leases real property, vehicles and other equipment under operating leases. Certain of these agreements contain lease renewal and purchase options. The Company also leases excess property to third parties. Net rental expense under these agreements was \$5.1 million, \$5.4 million and \$5.2 million in 2002, 2001 and 2000, respectively. Future minimum lease payments (net of sublease income commitments) under agreements in effect at December 31, 2002 are as follows: 2003 – \$3.1 million; 2004 – \$2.5 million; 2005 – \$2.3 million; 2006 – \$1.0 million; 2007 – \$0.6 million; and \$1.2 million thereafter.

Notes To Consolidated Financial Statements (Continued)

Other Commitments:

The Company has agreed to fund a research and development effort at a rate of \$0.2 million per year for five years, ending June 30, 2007. The commitment may be satisfied, in part, by qualifying internal costs or expenditures to third parties.

The Company has from time to time entered into agreements which resulted in indemnifying third parties against certain liabilities. Management believes that judgments, if any, related to such agreements would not have a material effect on the Company's financial condition, results of operations or cash flow.

11. Employee Benefit Plan Obligations

The Company provides retirement benefits for substantially all of its employees under several defined benefit and defined contribution plans. The Company's expense for its defined contribution plans amounted to \$1.4 million in each of 2002, 2001 and 2000. The Company also provides certain health insurance benefits to employees including retirees.

Following are the details of the liability and funding status of the pension and postretirement benefit plans:

(in thousands)

	<i>Pension Benefits</i>		<i>Postretirement Benefits</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
Change in benefit obligation				
Benefit obligation at beginning of year	\$26,959	\$25,151	\$ 18,950	\$ 11,372
Service cost	2,265	1,884	721	610
Interest cost	1,891	1,560	1,601	1,224
Actuarial (gains)/losses	4,040	(121)	7,011	6,493
Plan amendment	—	—	(8,658)	—
Participant contributions	—	—	120	73
Benefits paid	(1,551)	(1,515)	(862)	(822)
Benefit obligation at end of year	33,604	26,959	18,883	18,950
Change in plan assets				
Fair value of plan assets at beginning of year	24,480	26,117	—	—
Actual losses on plan assets	(3,310)	(1,671)	—	—
Company contributions	4,506	1,549	742	749
Participant contributions	—	—	120	73
Benefits paid	(1,551)	(1,515)	(862)	(822)
Fair value of plan assets at end of year	24,125	24,480	—	—
Funded (underfunded) status of plans at end of year	(9,479)	(2,479)	(18,883)	(18,950)
Unrecognized net actuarial loss	14,670	5,369	16,063	9,825
Unrecognized prior service cost	89	115	(7,216)	—
Unrecognized net transition obligation	—	—	—	1,217
Prepaid (accrued) benefit cost	\$ 5,280	\$ 3,005	\$ (10,036)	\$ (7,908)

Amounts recognized in the consolidated balance sheets at December 31 consist of:

(in thousands)

	<i>Pension Benefits</i>		<i>Postretirement Benefits</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
Accrued expenses	\$ (548)	\$ (1,243)	\$ —	\$ —
Pension asset	5,828	4,248	—	—
Employee benefit plan obligations	—	—	(10,036)	(7,908)
Net amount recognized	\$ 5,280	\$ 3,005	\$ (10,036)	\$ (7,908)

Included in employee and benefit plan obligation are \$1.7 million and \$1.6 million at December 31, 2002 and 2001, respectively, of deferred compensation for certain employees who, due to Internal Revenue Service guidelines, may not take full advantage of the Company's primary defined contribution plan. Assets funding this plan are recorded at fair value in prepaid expenses and other current assets.

Amounts applicable to a Company defined benefit plan with accumulated benefit obligations in excess of plan assets are as follows:

(in thousands)

	<i>2002</i>	<i>2001</i>
Projected benefit obligation	\$ 1,252	\$ 933
Accumulated benefit obligation	\$ 228	\$ 137

Notes To Consolidated Financial Statements (Continued)

Following are components of the net periodic benefit cost for each year:

(in thousands)	<i>Pension Benefits</i>			<i>Postretirement Benefits</i>		
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Service cost	\$2,265	\$1,884	\$2,062	\$ 721	\$ 610	\$ 434
Interest cost	1,891	1,560	1,625	1,601	1,224	766
Expected return on plan assets	(2,197)	(2,366)	(2,353)	—	—	—
Amortization of prior service cost	26	26	26	(122)	—	—
Recognized net actuarial loss	246	25	73	587	420	157
Amortization of net transition obligation	—	—	—	83	111	111
Benefit cost	\$2,231	\$1,129	\$1,433	\$2,870	\$2,365	\$1,468

	<i>Pension Benefits</i>		<i>Postretirement Benefits</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
Weighted average assumptions as of December 31				
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected return on plan assets	9.0%	9.0%	—	—
Rate of compensation increases	4.0%	4.0%	—	—
Health care cost trend rate	—	—	7.5%	8.0%

The health care cost trend rate of 7.5% is assumed to decline 0.5% per year to 5.0% and remain at that level thereafter. During 2002, the Company amended its postretirement benefits plan to eliminate benefits for any full-time employees hired after January 1, 2003.

The assumed health care cost trend rate has a significant effect on the amounts reported for postretirement benefits. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

(in thousands)	<i>One-Percentage-Point</i>	
	<i>Increase</i>	<i>Decrease</i>
Effect on total service and interest cost components in 2002	\$ 505	\$ (394)
Effect on postretirement benefit obligation as of December 31, 2002	273	(249)

To partially fund self-insured health care and other employee benefits, the Company makes payments to a trust. Assets of the trust amounted to \$4.0 million and \$4.6 million at December 31, 2002 and 2001, respectively, and are included in prepaid expenses and other current assets.

Notes To Consolidated Financial Statements (Continued)

12. Fair Values of Financial Instruments

The fair values of the Company's cash equivalents, margin deposits, short-term borrowings and certain long-term borrowings approximate their carrying values since the instruments are close to maturity and/or carry variable interest rates based on market indices. The Company accounts for investments in affiliates on the equity method. The estimated fair value of these investments could not be obtained without incurring excessive costs as these investments have no quoted market price.

Certain long-term notes payable and the Company's debenture bonds bear fixed rates of interest and terms of up to fifteen years. Based upon current interest rates offered by the Company on similar bonds and rates currently available to the Company for long-term borrowings with similar terms and remaining maturities, the Company estimates the fair values of its long-term debt instruments outstanding at December 2002 and 2001 as follows:

(in thousands)

	<i>Carrying Amount</i>	<i>Fair Value</i>
2002:		
Long-term notes payable	\$ 47,237	\$ 49,242
Debenture bonds	27,628	27,863
	<u>\$ 74,865</u>	<u>\$ 77,105</u>
2001:		
Long-term notes payable	\$ 31,284	\$ 32,695
Debenture bonds	31,250	32,189
	<u>\$ 62,534</u>	<u>\$ 64,884</u>

13. Business Segments

The Company's operations include four reportable business segments that are distinguished primarily on the basis of products and services offered. The Agriculture segment includes grain merchandising, the operation of terminal grain elevator facilities and the manufacture and distribution of agricultural inputs, primarily fertilizer, to dealers and farmers. The Processing segment includes the production and distribution of lawn care and corncob-based products. The Rail segment includes the leasing, marketing and fleet management of railcars and locomotives, railcar repair and metal fabrication. The Retail segment includes the operation of six large retail stores, a distribution center and a lawn and garden equipment sales and service shop.

Included in the Other segment are the operations of several smaller businesses and corporate level amounts not attributable to an operating segment. These smaller businesses included the operations of ten auto service centers (a joint venture that was sold in March 2000) and the marketing of the Company's excess real estate.

The segment information below (in thousands) includes the allocation of expenses shared by one or more segments. Although management believes such allocations are reasonable, the operating information does not necessarily reflect how such data might appear if the segments were operated as separate businesses. Inter-segment sales are made at prices comparable to normal, unaffiliated customer sales. Operating income (loss) for each segment is based on net sales and merchandising revenues plus identifiable other income less all identifiable operating expenses, including interest expense for carrying working capital and long-term assets. Capital expenditures include additions to property, plant and equipment, software and intangible assets.

Notes To Consolidated Financial Statements (Continued)

2002	Agriculture	Processing	Rail	Retail	Other	Total
Revenues from external customers	\$761,575	\$114,315	\$18,747	\$181,197	–	\$1,075,834
Inter-segment sales	8,330	1,216	877	–	–	10,423
Other income (net)	1,340	501	41	685	872	3,439
Gain on insurance settlement	–	–	–	–	302	302
Interest expense (income) (a)	5,772	2,333	1,068	1,546	(907)	9,812
Operating income (loss)	18,986	(1,322)	1,563	4,003	(3,396)	19,834
Identifiable assets	263,651	85,140	35,378	57,046	28,600	469,815
Capital expenditures	5,760	832	199	1,694	1,349	9,834
Railcar expenditures	–	–	8,203	–	–	8,203
Depreciation and amortization	5,950	2,263	2,525	2,415	1,161	14,314

2001	Agriculture	Processing	Rail	Retail	Other	Total
Revenues from external customers	\$662,790	\$112,827	\$31,061	\$177,949	–	\$984,627
Inter-segment sales	5,645	1,212	930	–	–	7,787
Other income (net)	1,196	300	248	618	1,141	3,503
Gain on insurance settlement	338	–	–	–	–	338
Interest expense (income) (a)	6,179	3,428	1,846	1,900	(1,783)	11,570
Operating income (loss)	19,765	(7,654)	(349)	1,868	(1,699)	11,931
Identifiable assets	244,289	84,709	45,037	57,289	27,000	458,324
Capital expenditures	5,845	1,549	166	907	688	9,155
Railcar expenditures	–	–	21,790	–	–	21,790
Depreciation and amortization	6,399	2,341	2,432	2,426	666	14,264

2000	Agriculture	Processing	Rail	Retail	Other	Total
Revenues from external customers	\$648,410	\$107,434	\$18,972	\$183,817	\$2,489	\$961,122
Inter-segment sales	5,896	1,280	1,029	–	–	8,205
Other income (net)	1,204	358	233	611	1,583	3,989
Gain on sale of business	–	–	–	–	992	992
Gain on insurance settlement	2,088	–	–	–	–	2,088
Interest expense (income) (a)	6,186	3,424	1,748	1,706	(1,235)	11,829
Operating income (loss)	14,301	(3,470)	1,003	3,246	(716)	14,364
Identifiable assets	218,084	87,092	43,213	60,178	34,398	442,965
Capital expenditures (b)	9,648	9,276	72	1,484	488	20,968
Railcar expenditures	–	–	16,245	–	–	16,245
Depreciation and amortization	6,223	2,032	1,417	2,755	692	13,119

(a) The interest income reported in the Other segment includes net interest income at the corporate level. These amounts result from a rate differential between the interest rate on which interest is allocated to the operating segments and the actual rate at which borrowings are made.

(b) Capital expenditures in 2000 include assets purchased in exchange for long-term liabilities.

Grain sales for export to foreign markets amounted to approximately \$149 million, \$191 million and \$172 million in 2002, 2001 and 2000, respectively.

Grain sales of \$154 million, \$122 million and \$153 million in 2002, 2001, and 2000, respectively, were made to Cargill, Inc.

Board Of Directors



Donald E. Anderson
Director of Science, Retired
The Andersons, Inc.



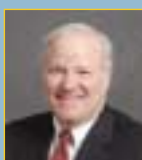
Thomas H. Anderson
Chairman Emeritus
The Andersons, Inc.



David L. Nichols (1)(3)
President & Chief Operating Officer,
Rich's-Macy's / Lazarus /
Goldsmith's Division of Federated
Department Stores, Inc.



Michael J. Anderson
President
& Chief Executive Officer
The Andersons, Inc.



John F. Barrett (2) (3)
Chairman, President &
Chief Executive Officer
The Western & Southern
Life Insurance Co.



Dr. Sidney Ribeau (2)(3)
President
Bowling Green State University



Richard M. Anderson
President,
Processing Group
The Andersons, Inc.



Paul M. Kraus
Attorney
Marshall & Melhorn LLC



Charles A. Sullivan (1)(3)
Chairman
Interstate Bakeries Corp



Richard P. Anderson
Chairman
The Andersons, Inc.



Donald L. Mennel (1) (3)
President & Treasurer
The Mennel Milling
Company



Jacqueline F. Woods (2)(3)
Retired President
Ameritech Ohio

(1) Audit Committee (2) Compensation Committee (3) Governance/Nominating Committee

Corporate Officers

Dennis J. Addis
President, Plant Nutrient Division

Daniel T. Anderson
President, Retail Group

Michael J. Anderson
President & Chief Executive Officer

Richard M. Anderson
President, Processing Group

Richard P. Anderson
Chairman

Dale W. Fallat
Vice President, Corporate Services

Philip C. Fox
Vice President, Corporate Planning

Charles E. Gallagher
Vice President, Human Resources

Richard R. George
Vice President, Controller & CIO

Beverly J. McBride
Vice President, General Counsel &
Corporate Secretary

Harold M. Reed
President, Grain Division

Rasesh H. Shah
President, Rail Group

Gary L. Smith
Vice President, Finance & Treasurer

Investor Information

Corporate Offices
The Andersons, Inc.
480 West Dussel Drive
Maumee, OH 43537
419-893-5050
www.andersonsinc.com

Nasdaq Symbol
The Andersons, Inc. common shares
are traded on the Nasdaq National
Market tier of The Nasdaq Stock
Market under the symbol ANDE

Shareholders
As of February 28, 2003, there were
7.2 million shares of common stock
outstanding: 674 shareholders of
record and approximately 2,500
shareholders for whom security firms
acted as nominees.

Transfer Agent & Registrar
Computershare Investor Services, LLC
2 North LaSalle Street
Chicago, IL 60602
312-588-4991

Form 10-K
The Andersons' 2002 Form 10-K, filed
in mid-March 2003 with the SEC, is
available to stockholders and interested
individuals without charge by writing or
calling Investor Relations.

Investor Relations
Gary L. Smith
Vice President, Finance & Treasurer
419-891-6417
gary_smith@andersonsinc.com

Independent Accountants
PricewaterhouseCoopers LLP,
Toledo, OH

Annual Meeting
The annual shareholders' meeting of
The Andersons, Inc. will be held at
The Andersons' Activities Building,
1833 South Holland-Sylvania Road,
Maumee, OH at 1:30 p.m. on
May 1, 2003.



Our Mission

We firmly believe that our company
is a powerful vehicle through which we
channel our time, talent, and energy in
pursuit of the fundamental goal of serving
God by serving others.

Through our collective action we greatly magnify
the impact of our individual efforts to:

- Provide extraordinary service to our customers
- Help each other improve
- Support our communities
- Increase the value of our Company



*The Andersons, Inc.
480 West Dussel Drive
Maumee, Ohio 43537*

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

 X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

or

 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-20557

THE ANDERSONS, INC.

(Exact name of registrant as specified in its charter)

OHIO
(State or other jurisdiction of
incorporation or organization)

480 W. Dussel Drive, Maumee, Ohio
(Address of principal executive offices)

34-1562374
(I.R.S. Employer
Identification No.)

43537
(Zip Code)

Registrant's telephone number, including area code (419) 893-5050

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Shares

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] No []

The aggregate market value of the registrant's voting stock which may be voted by persons other than affiliates of the registrant was \$80.8 million on June 30, 2002, computed by reference to the last sales price for such stock on that date as reported on the Nasdaq National Market.

The registrant had 7.2 million Common shares outstanding, no par value, at February 28, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2002 Annual Report of The Andersons, Inc. and Proxy Statement for the Annual Meeting of Shareholders to be held on May 1, 2003, are incorporated by reference into Parts II (Items 5, 6, 7 and 8), III (Items 10, 11 and 12) and IV of this Annual Report on Form 10-K. The Proxy Statement will be filed with the Commission on or about March 17, 2003.

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PART I

Item 1. Business

(a) General development of business

The Andersons, Inc. is a diversified corporation that began operations as a partnership in 1947. The Company is organized into four operating groups. The Agriculture Group purchases and merchandises grain, operates grain elevator facilities located in Ohio, Michigan, Indiana and Illinois, manufactures and sells dry and liquid agricultural nutrients, distributes agricultural inputs (nutrients, chemicals, seed and supplies) to dealers and farmers and formulates anti-icers for road and runway use. The Processing Group manufactures turf and ornamental plant fertilizer and control products for lawn and garden use, professional golf and landscaping industries and corncob-based products for use in various industries. The Rail Group sells, repairs, reconfigures, manages and leases railcars and locomotives. The Retail Group operates six large retail stores, and a distribution center in Ohio.

(b) Financial information about industry segments

See Note 13 to the consolidated financial statements for information regarding business segments.

(c) Narrative description of business

Agriculture Group

The Agriculture Group operates grain elevators, plant nutrient formulation and distribution facilities, and farm centers.

The Company's grain operations involve merchandising grain and operating terminal grain elevator facilities. This includes purchasing, handling, processing and conditioning grain, storing grain purchased by the Company as well as grain owned by others, and selling grain. The principal grains sold by the Company are yellow corn, yellow soybeans and soft red and white wheat. The Company's grain storage practical capacity was approximately 78.7 million bushels at December 31, 2002.

Grain merchandised by the Company is grown in the Midwestern portion of the United States (the eastern corn belt) and is acquired from country elevators, dealers and producers. The Company makes grain purchases at prices referenced to Chicago Board of Trade ("CBOT") quotations. The Company competes for the purchase of grain with grain processors and feeders, as well as with other grain merchandisers.

In 1998, the Company signed a five-year lease agreement with Cargill, Inc. for Cargill's Maumee and Toledo, Ohio grain handling and storage facilities. As part of the agreement, Cargill was given the marketing rights to grain in the Cargill-owned facilities as well as the

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adjacent Company-owned facilities in Maumee and Toledo. These agreements cover 42%, or approximately 32.2 million bushels, of the Company's total storage space and became effective on June 1, 1998. See also the Critical Accounting Policies section of the Management's Discussion and Analysis of The Andersons, Inc. 2002 Annual Report to Shareholders for further discussion of this agreement. The Company is in the process of negotiating a new contract with Cargill.

Approximately 68% of the grain bushels sold by the Company in 2002 were purchased by U.S. grain processors and feeders, and approximately 32% were exported. Exporters purchased most of the exported grain for shipment to foreign markets, while some grain is shipped directly to foreign countries, mainly Canada. Almost all grain shipments are by rail or boat. Rail shipments are made primarily to grain processors and feeders, with some rail shipments made to exporters on the Gulf of Mexico or east coast. Boat shipments are from the Port of Toledo. Grain sales are made on a negotiated basis by the Company's merchandising staff, except for grain sales subject to the marketing agreement with Cargill which are made on a negotiated basis with Cargill's merchandising staff.

The Company's grain business may be adversely affected by the grain supply (both crop quality and quantity) in its principal growing area, government regulations and policies, conditions in the shipping and rail industries and commodity price levels. See "Government Regulation". The grain business is seasonal coinciding with the harvest of the principal grains purchased and sold by the Company.

Fixed price purchase and sale commitments for grain and grain held in inventory expose the Company to risks related to adverse changes in price. The Company attempts to manage these risks by hedging fixed price purchase and sale contracts and inventory through the use of futures and option contracts with the CBOT. The CBOT is a regulated commodity futures exchange that maintains futures markets for the grains merchandised by the Company. Futures prices are determined by worldwide supply and demand.

The Company's hedging program is designed to reduce the risk of changing commodity prices. In that regard, hedging transactions also limit potential gains from further changes in market prices. The grain division's profitability is primarily derived from margins on grain sold, and revenues generated from other merchandising activities with its customers (including storage income), not from hedging transactions. The Company has policies that specify the key controls over its hedging program. These policies include a description of the hedging programs, mandatory review of positions by key management outside of the trading function on a biweekly basis, daily position limits, modeling of positions for changes in market conditions and other internal controls.

Purchases of grain can be made the day the grain is delivered to a terminal or via a forward contract made prior to actual delivery. Sales of grain generally are made by contract for delivery in a future period. When the Company purchases grain at a fixed price, the purchase is hedged with the sale of a futures contract on the CBOT. Similarly, when the Company sells grain at a fixed price, the sale is hedged with the purchase of a futures contract on the CBOT. At

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the close of business each day, the open inventory ownership positions as well as open futures and option positions are marked-to-market. Gains and losses in the value of the Company's inventory positions due to changing market prices are netted with and generally offset by losses and gains in the value of the Company's futures positions.

When a futures contract is entered into, an initial margin deposit must be sent to the CBOT. The amount of the margin deposit is set by the CBOT and varies by commodity. If the market price of a futures contract moves in a direction that is adverse to the Company's position, an additional margin deposit, called a maintenance margin, is required by the CBOT. Subsequent price changes could require additional maintenance margins or result in the return of maintenance margins by the CBOT. Significant increases in market prices, such as those that occur when weather conditions are unfavorable for extended periods, can have an effect on the Company's liquidity and, as a result, require it to maintain appropriate short-term lines of credit. The Company may utilize CBOT option contracts to limit its exposure to potential required margin deposits in the event of a rapidly rising market.

The Company's grain operations rely on forward purchase contracts with producers, dealers and country elevators to ensure an adequate supply of grain to the Company's facilities throughout the year. Bushels contracted for future delivery at February 28, 2003 approximated 58.0 million, the majority of which is scheduled to be delivered to the Company for the 2002 and 2003 crop years (i.e., through September 2004). The Company relies heavily on its hedging program as the method for minimizing price risk in its grain inventories and contracts. The Company monitors current market conditions and may expand or reduce the purchasing program in response to changes in those conditions. In addition, the Company reviews its purchase contracts and the parties to those contracts on a regular basis for credit worthiness, defaults and non-delivery. The Company's loan agreements also require it to be substantially hedged in its grain transactions.

The Company has also developed the Crop Revenue Profiler® software program to assist producers in making complex risk management decisions. This software program integrates the variables of crop insurance and government programs with our grain marketing philosophy to help producers achieve a more predictable result, reducing the impact of volatile crop prices. By helping producers achieve more stable earnings, the Company helps to ensure a consistent supply of grain to its facilities.

In January 2003, the Company became a minority investor in Lansing Grain company LLC, which is a 77-year old grain trading business with offices in Michigan, Minnesota and Kansas. This investment provides the Company a further opportunity to expand outside of its traditional geographic regions.

The Company competes in the sale of grain with other grain merchants, other elevator operators and farmer cooperatives that operate elevator facilities. Competition is based primarily on price, service and reliability. Some of the Company's competitors are also its customers and many of its competitors have substantially greater financial resources than the Company.

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The Company's plant nutrient operations involve purchasing, storing, formulating and selling dry and liquid fertilizer to dealers and farmers; providing warehousing and services to manufacturers and customers; formulation of liquid anti-icers and deicers for use on roads and runways; and the distribution of seeds and various farm supplies. The major fertilizer ingredients sold by the Company are nitrogen, phosphate and potash, all of which are readily available.

The Company's market area for its plant nutrient wholesale business includes, primarily, Illinois, Indiana, Michigan and Ohio. Customers for the Company's fertilizer products are principally retail dealers. Sales of agricultural fertilizer products are heaviest in the spring and fall. The Plant Nutrient Division's eleven farm centers, located throughout Michigan, Indiana and Ohio, are located within the same regions as the Company's other agricultural facilities. These farm centers offer agricultural fertilizer, custom application of fertilizer, and chemicals, seeds and supplies to the farmer.

Storage capacity at the Company's fertilizer facilities, including its eleven farm centers, was approximately 13.3 million cubic feet for dry fertilizers and approximately 32.6 million gallons for liquid fertilizers at December 31, 2002. The Company reserves 5.9 million cubic feet of its dry storage capacity for various fertilizer manufacturers and customers and 9.6 million gallons of its liquid fertilizer capacity is reserved for manufacturers and customers. The agreements for reserved space provide the Company storage and handling fees and are generally for an initial term of one year, renewable at the end of each term. The Company also leases 2.3 million gallons of liquid fertilizer capacity under arrangements with various fertilizer dealers and warehouses in locations where the Company does not have facilities.

In its plant nutrient businesses, the Company competes with regional and local cooperatives, fertilizer manufacturers, multi-state retail/wholesale chain store organizations and other independent wholesalers of agricultural products. Many of these competitors have considerably larger resources than the Company. Competition in the agricultural products business of the Company is based principally on price, location and service.

Sales of grain (corn, soybeans, wheat and oats) totaled \$553.4 million, \$439.0 million and \$452.5 million in 2002, 2001 and 2000, respectively. Sales of dry and liquid fertilizers (primarily potash, nitrogen and phosphate) to dealers totaled \$135.1 million, \$134.0 million and \$112.7 million in 2002, 2001 and 2000, respectively.

Processing Group

The Processing Group produces and markets turf and ornamental plant fertilizer and control products. It also produces and distributes corncob-based products to the chemical carrier, pet and industrial markets.

The Company sells consumer fertilizer and control products, for "do-it-yourself" application, to mass merchandisers, small independent retailers and other lawn fertilizer manufacturers. The Company also performs contract manufacturing of fertilizer and control products in its industrial line of business. In an industrial arrangement, the Company is not

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responsible for direct marketing support of the mass merchandiser. Margins on industrial tons are, therefore, lower than margins on consumer tons. Professional lawn products are sold both directly and through distributors to golf courses and lawn service applicators under the Andersons Golf ProductsTM label.

The turf products industry is highly seasonal, with the majority of sales occurring from early spring to early summer. During the off-season, the Company sells ice melt products to many of the same customers that purchase consumer turf products. With the acquisition in 2000 of the U.S. ProTurf® product line from The Scotts Company, Inc., the Company has a significant share of the golf course market in the United States. Principal raw materials for the turf care products are nitrogen, potash and phosphate, which are purchased primarily from the Company's Plant Nutrient Division. Competition is based principally on merchandising ability, logistics, service and quality. The Company attempts to minimize the amount of finished goods inventory it must maintain for customers, however, because demand is highly seasonal and influenced by local weather conditions, it may be required to carry inventory that it has produced into the next season. Also, because a majority of the consumer and industrial businesses use private label packaging, the Company closely manages production to anticipated orders by product and customer. This is consistent with industry practices.

Sales of turf and ornamental plant fertilizer and control products totaled \$103.3 million, \$102.2 million and \$96.1 million in 2002, 2001 and 2000, respectively.

The Company is one of the largest producers of processed corncob-based products in the United States. These products serve the chemical and feed ingredient carrier, animal litter and industrial markets and are distributed throughout the United States and Canada and into Europe and Asia. The principal sources for the corncobs are seed corn producers.

Rail Group

The Company's Rail Group buys, sells, leases, rebuilds and repairs various types of used railcars and rail equipment. The division also provides fleet management services to fleet owners and operates a custom steel fabrication business. A significant portion of the railcar fleet is leased from financial lessors and sub-leased to end-users, generally under operating leases which do not appear on the balance sheet. In addition, the Company also arranges non-recourse lease transactions under which it sells railcars or locomotives to a financial intermediary and assigns the related operating lease to the financial intermediary on a non-recourse basis. In such transactions, the Company generally provides ongoing railcar maintenance and management services for the financial intermediary, receiving a fee for these services. The Company generally holds purchase options on most railcars owned by financial intermediaries. Of the 5,699 railcars that the Company managed at December 31, 2002, 2,268, or 40%, were included on the balance sheet, primarily as long-lived assets. The remaining 3,431 railcars and 51 locomotives are either in off-balance sheet operating leases or non-recourse arrangements.

The risk management philosophy of the Company includes match-funding of lease commitments and detailed review of lessee credit quality. Generally, the Company completes

non-recourse transactions whenever possible to minimize credit risk. The Company strives to be the Total Rail SolutionsSM provider for its railcar customers.

Competition for railcar marketing and fleet maintenance services is based primarily on service ability, and access to both used rail equipment and third party financing. Repair and fabrication shop competition is based primarily on price, quality and location.

Although the Company first managed a fleet of covered hopper cars used in the grain industry, it has diversified into other car types (boxcars, gondolas, open top hoppers and tank cars) and industries. In 2000, the Company added locomotives to the fleet managed. The Company plans to continue to diversify its fleet both in car types and industries.

The Company announced on March 11, 2003 that it has signed a letter of intent to purchase certain railcar leasing assets from Railcar Ltd., a subsidiary of Progress Rail Services Company. This agreement anticipates a transaction where Railcar Ltd. sells approximately 7,000 railcars and 48 locomotives, most of which are currently under lease, and also will transfer the management of approximately 4,000 railcars to a new entity that will be owned by a consortium of investors. The Rail Group will hold a minority interest in the entity and will manage the assets on behalf of the investors for a management fee. Finalization of the transaction is dependent on due diligence, financing, completion of the definitive purchase agreement and Board of Directors approval.

Retail Group

The Company's Retail Group consists of six stores operated as "The Andersons", which are located in the Columbus, Lima and Toledo, Ohio markets and serve urban, suburban and rural customers. The retail concept is "More for Your Home"® and includes a full line of home center products plus a wide array of other items not available at the more traditional home center stores. In addition to hardware, home remodeling and lawn and garden products, The Andersons stores offer housewares, automotive products, sporting goods, pet products, bath soft goods and food (bakery, deli, produce, wine and specialty groceries). Each store carries more than 70,000 different items, has 100,000 square feet or more of in-store display space plus 40,000 square feet of outdoor garden center space, and features do-it-yourself clinics, special promotions and varying merchandise displays. The majority of the Company's non-perishable merchandise is received at a distribution center located in Maumee, Ohio.

The retail merchandising business is highly competitive. The Company competes with a variety of retail merchandisers, including home centers, department and hardware stores. Many of these competitors have substantially greater financial resources than the Company. The principal competitive factors are location, quality of product, price, service, reputation and breadth of selection. The Company's retail business is affected by seasonal factors with significant sales occurring during the Christmas season and in the spring.

The Company also operates a sales and service facility for outdoor power equipment near one of its conventional retail stores.

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Sales of retail merchandise totaled \$181.2 million, \$177.9 million and \$183.8 million in 2002, 2001 and 2000, respectively.

Other Businesses

The Company sold its interest in The Andersons – Tireman Auto Centers to its venture partner and the general manager on March 31, 2000.

Research and Development

The Company’s research and development program is mainly involved with the development of improved products and processes, primarily for the Processing and Agriculture Groups. The Company expended approximately \$517,000, \$430,000, and \$340,000 on research and development activities during 2002, 2001 and 2000, respectively.

Employees

At December 31, 2002, the Company had 1,236 full-time and 1,722 part-time or seasonal employees. The Company believes its relations with its employees are good.

Government Regulation

Grain sold by the Company must conform to official grade standards imposed under a federal system of grain grading and inspection administered by the United States Department of Agriculture (“USDA”).

The production levels, markets and prices of the grains that the Company merchandises are materially affected by United States government programs, including acreage control and price support programs of the USDA. Also, under federal law, the President may prohibit the export of any product, the scarcity of which is deemed detrimental to the domestic economy, or under circumstances relating to national security. Because a portion of the Company’s grain sales is to exporters, the imposition of such restrictions could have an adverse effect upon the Company’s operations.

The Company, like other companies engaged in similar businesses, is subject to a multitude of federal, state and local environmental protection laws and regulations including, but not limited to, laws and regulations relating to air quality, water quality, pesticides and hazardous materials. The provisions of these various regulations could require modifications of certain of the Company’s existing plant and processing facilities and could restrict the expansion of future facilities or significantly increase the cost of their operations. The Company made capital expenditures of approximately \$690,000, \$880,000 and \$860,000 in order to comply with these regulations in 2002, 2001 and 2000, respectively.

Item 2. Properties

The Company's principal agriculture, retail and other properties are described below. Except as otherwise indicated, the Company owns all properties.

Agriculture Facilities

(in thousands)			
Location	Grain Storage (bushels)	Dry Storage (cubic feet)	Agricultural Fertilizer Liquid Storage (gallons)
Maumee, OH (3)	20,510	4,500	2,878
Toledo, OH Port (4)	11,650	1,800	2,812
Metamora, OH	6,980	—	—
Lyons, OH (2)	380	53	284
Toledo, OH (1)	990	—	—
Fremont, OH (2)	—	40	271
Fostoria, OH (2)	—	40	210
Gibsonburg, OH (2)	—	37	349
Lordstown, OH	—	197	—
Champaign, IL	12,730	833	—
Delphi, IN	7,060	923	—
Clymers, IN	4,720	—	—
Dunkirk, IN	7,800	833	—
Poneto, IN	—	10	5,284
North Manchester, IN (2)	—	25	211
Seymour, IN	—	720	943
Waterloo, IN (1) (2)	—	970	1,686
Logansport, IN	—	83	3,652
Walton, IN (2)	—	435	7,860
Albion, MI (2)	3,220	15	143
White Pigeon, MI	2,700	—	—
Webberville, MI	—	1,747	5,060
Litchfield, MI (2)	—	30	438
Union City, MI (2)	—	15	183
Munson, MI (2)	—	33	312
	<u>78,740</u>	<u>13,339</u>	<u>32,576</u>

(1) Facility leased.

(2) Facility is or includes a farm center.

(3) Includes leased facilities with a 3,300-bushel capacity.

(4) Includes leased facilities with a 5,500-bushel capacity.

The grain facilities are mostly concrete and steel tanks, with some flat storage, which is primarily cover-on-first temporary storage. The Company also owns grain inspection buildings and dryers, maintenance buildings and truck scales and dumps.

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The Plant Nutrient Division's wholesale fertilizer and farm center properties consist mainly of fertilizer warehouse and distribution facilities for dry and liquid fertilizers. The Maumee, Ohio; Seymour, Indiana; and Walton, Indiana locations have fertilizer mixing, bagging and bag storage facilities.

Retail Store Properties

Name	Location	Square Feet
Maumee Store	Maumee, OH	131,000
Toledo Store	Toledo, OH	130,000
Woodville Store (1)	Northwood, OH	100,000
Lima Store (1)	Lima, OH	117,000
Brice Store	Columbus, OH	128,000
Sawmill Store	Columbus, OH	134,000
Distribution Center (1)	Maumee, OH	245,000

(1) Leased

The leases for the two stores and the distribution center are long-term operating leases with several renewal options and provide for minimum aggregate annual lease payments approximating \$1.1 million. The two store leases provide for contingent lease payments based on achieved sales volume. One store had sales triggering payments of contingent rental in 2002, 2001 and 2000. In addition, the Company owns a service and sales facility for outdoor power equipment adjacent to its Maumee, Ohio retail store.

Other Properties

The Company owns lawn fertilizer production facilities in Maumee, Ohio; Bowling Green, Ohio; and Montgomery, Alabama. It also owns corncob processing and storage facilities in Maumee, Ohio and Delphi, Indiana. The Company leases lawn fertilizer warehouse facilities in Toledo, Ohio and Montgomery, Alabama and lawn fertilizer production and warehouse facilities in Pottstown, Pennsylvania.

In its railcar business, the Company owns, leases or manages approximately 51 locomotives and 5,699 railcars (primarily covered or open hoppers with some boxcars, tank cars and gondolas) with lease terms ranging from one to twelve years. Future minimum lease payments for these railcars and locomotives are \$30.1 million with future minimum contractual lease and service income of approximately \$45.9 million. The Company also owns a railcar repair facility, a steel fabrication facility, and owns or leases a number of switch engines, cranes and other equipment.

The Company also owns an auto service center that is leased to its former venture partner. The Company's administrative office building is leased under a net lease expiring in 2005. The lease includes an option to purchase by the Company at termination. The Company owns

approximately 1,060 acres of land on which the above properties and facilities are located and approximately 366 acres of farmland and land held for future use.

Real properties, machinery and equipment of the Company were subject to aggregate encumbrances of approximately \$59 million at December 31, 2002. Additions to property, including intangible assets but excluding railcar assets, for the years ended December 31, 2002, 2001 and 2000 amounted to \$10 million, \$9 million and \$21 million, respectively. Additions to the Company's railcar assets totaled \$8.2 million, \$21.8 million and \$16.2 million for the years ended December 31, 2002, 2001 and 2000, respectively. These additions were offset by sales of railcars of \$16.0 million, \$15.4 million and \$3.8 million for the same periods. See Note 10 to the Company's consolidated financial statements for information as to the Company's leases.

The Company believes that its properties, including its machinery, equipment and vehicles, are adequate for its business, well maintained and utilized, suitable for their intended uses and adequately insured.

Item 3. Legal Proceedings

The Company has been named as a defendant in various lawsuits arising in the ordinary course of business. It is not possible at the present time to estimate the ultimate outcome of these actions; however, management believes that the resultant liability, if any, will not be material based on previous experience with lawsuits of these types.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were voted upon during the fourth quarter of fiscal 2002.

Item 4a. Executive Officers of the Registrant

Pursuant to General Instruction G(3) of Form 10-K, the following information with respect to the executive officers of the registrant is included herein in lieu of being included in the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held May 1, 2003.

Name	Position	Age	Year Assumed
Dennis J. Addis	President, Plant Nutrient Division Vice President and General Manager, Plant Nutrient Division, Agriculture Group	50	2000 1999
Daniel T. Anderson	President, Retail Group	47	1996
Michael J. Anderson	President and Chief Executive Officer President and Chief Operating Officer	51	1999 1996
Richard M. Anderson	President, Processing Group	47	1999
Richard P. Anderson	Chairman of the Board Chairman of the Board and Chief Executive Officer	73	1999 1996
Dale W. Fallat	Vice President, Corporate Services	58	1992
Philip C. Fox	Vice President, Corporate Planning	60	1996
Charles E. Gallagher	Vice President, Personnel	61	1996
Richard R. George	Vice President, Controller and CIO Vice President and Controller	53	2002 1996
Beverly J. McBride	Vice President, General Counsel and Secretary	61	1996
Harold M. Reed	President, Grain Division Vice President and General Manager, Grain Division, Agriculture Group	46	2000 1999
Rasesh H. Shah	President, Rail Group	48	1999
Gary L. Smith	Vice President, Finance and Treasurer	57	1996

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The information under the caption Quarterly Financial Data and Market for Common Stock on page 14 and Shareholders on the inside back cover of The Andersons, Inc. 2002 Annual Report to Shareholders is incorporated herein by reference. The Company paid quarterly dividends of \$0.065, \$0.065 and \$0.06 per common share, respectively, in 2002, 2001 and 2000. The Company declared quarterly dividends of \$0.07 per common share to be paid January 22, 2003 and April 22, 2003 to shareholders of record on January 2, 2003 and April 1, 2003, respectively.

Item 6. Selected Financial Data

The information under the caption Selected Financial Data on page 14 of The Andersons, Inc. 2002 Annual Report to Shareholders is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information under the caption Management's Discussion & Analysis appearing on pages 20 through 23 of The Andersons, Inc. 2002 Annual Report to Shareholders is incorporated herein by reference. See page 26 of The Andersons, Inc. 2002 Annual Report to Shareholders for discussion of new accounting standards, which is incorporated herein by reference.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

The information under the captions Market Risk-Sensitive Instruments and Positions, Commodity Prices and Interest Rates appearing on page 23 of The Andersons, Inc. 2002 Annual Report to Shareholders is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The information under the caption Quarterly Financial Data and Market for Common Stock on page 14 of The Andersons, Inc. 2002 Annual Report to Shareholders, the Report of Independent Accountants on page 15 of The Andersons, Inc. 2002 Annual Report to Shareholders, as well as the following consolidated financial statements of The Andersons, Inc. set forth on pages 16 through 19 and 24 through 36 of The Andersons, Inc. 2002 Annual Report to Shareholders are incorporated herein by reference:

- Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000
- Consolidated Balance Sheets as of December 31, 2002 and 2001

- Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000
- Consolidated Statements of Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000
- Notes to Consolidated Financial Statements

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None

PART III

Item 10. Directors and Executive Officers of the Registrant

For information with respect to the executive officers of the registrant, see "Executive Officers of the Registrant" included in Part I, Item 4a of this report. For information with respect to the Directors of the registrant, see "Election of Directors" in the Proxy Statement for the Annual Meeting of the Shareholders to be held on May 1, 2003 (the "Proxy Statement"), which is incorporated herein by reference; for information concerning 1934 Securities and Exchange Act Section 16(a) Compliance, see such section in the Proxy Statement, incorporated herein by reference.

Item 11. Executive Compensation

The information set forth under the caption "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth under the caption “Security Ownership” in the Proxy Statement is incorporated herein by reference.

The following table gives information as of December 31, 2002 about the Company’s common shares that may be issued upon the exercise of options under all of our existing equity compensation plans.

Plan category	Equity Compensation Plan Information		
	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	830,808(1)	\$9.37	889,810(2)
Equity compensation plans not approved by security holders	—	—	—
Total	830,808	\$9.37	889,810

(1) This number includes options (807,555) and restricted shares (23,253) outstanding under the Company’s Amended and Restated Long-Term Performance Compensation Plan dated December 14, 2001. This number does not include any shares related to the Employee Share Purchase Plan. This Employee Share Purchase Plan allows employees to purchase common shares at the lower of the market value on the beginning or end of the calendar year through payroll withholdings. This purchase is completed as of December 31.

(2) This number includes 38,738 common shares available to be purchased under the Employee Share Purchase Plan.

Item 13. Certain Relationships and Related Transactions

None

Item 14. Controls and Procedures

The President and Chief Executive Officer; Vice President, Controller and CIO; and Vice President, Finance and Treasurer (the “Certifying Officers”) have evaluated our disclosure controls and procedures as defined in the rules of the SEC, within 90 days of the filing date of this report and have determined that such controls and procedures were effective in

ensuring that material information required to be disclosed by the Company in the reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Our Certifying Officers are primarily responsible for the accuracy of the financial information that is presented in this report. To meet their responsibility for financial reporting, they have established internal controls and procedures which they believe are adequate to provide reasonable assurance that the Company’s assets are protected from loss. These internal controls are reviewed by the Company’s internal auditors in order to monitor compliance and by our independent accountants to support their audit work. In addition, our Board’s Audit Committee, which is composed entirely of independent directors, meets regularly with management, internal auditors and the independent accountants to review accounting, auditing and financial matters. This Committee and the independent accountants have free access to each other, with or without management being present.

There were no significant changes in internal controls subsequent to the date of the Certifying Officers’ evaluation.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

- (a)
- (1)

The consolidated financial statements of the Company, as set forth under Item 8 of this report on Form 10-K, are incorporated herein by reference from The Andersons, Inc. 2002 Annual Report to Shareholders.
- (2)

The following consolidated financial statement schedule and Report of Independent Accountants on Financial Statement Schedule is included in Item 15(d):

II.	Consolidated Valuation and Qualifying Accounts — years ended December 31, 2002, 2001 and 2000	Page 27
	Report of Independent Accountants on Financial Statement Schedule	26

All other schedules for which provisions are made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

- (3)
- Exhibits:
- 2.1

Agreement and Plan of Merger, dated April 28, 1995 and amended as of September 26, 1995, by and between The Andersons Management Corp. and The Andersons. (Incorporated by reference to Exhibit 2.1 to Registration Statement No. 33-58963).

[Table of Contents](#)

3.1	Articles of Incorporation. (Incorporated by reference to Exhibit 3(d) to Registration Statement No. 33-16936).
3.4	Code of Regulations of The Andersons, Inc. (Incorporated by reference to Exhibit 3.4 to Registration Statement No. 33-58963).
4.3	Specimen Common Share Certificate. (Incorporated by reference to Exhibit 4.1 to Registration Statement No. 33-58963).
4.4	The Seventeenth Supplemental Indenture dated as of August 14, 1997, between The Andersons, Inc. and The Fifth Third Bank, successor Trustee to an Indenture between The Andersons and Ohio Citizens Bank, dated as of October 1, 1985. (Incorporated by reference to Exhibit 4.4 to The Andersons, Inc. the 1998 Annual Report on Form 10-K).
10.1	Management Performance Program. * (Incorporated by reference to Exhibit 10(a) to the Predecessor Partnership's Form 10-K dated December 31, 1990, File No. 2-55070).
10.2	The Andersons, Inc. Amended and Restated Long-Term Performance Compensation Plan * (Incorporated by reference to Appendix A to the Proxy Statement for the April 25, 2002 Annual Meeting).
10.3	The Andersons, Inc. Employee Share Purchase Plan * (Incorporated by reference to Appendix C to Registration Statement No. 33-58963).
13	The Andersons, Inc. 2002 Annual Report to Shareholders
21	Subsidiaries of The Andersons, Inc.
23	Consent of Independent Accountants
99.1	Section 906 Certification of President and Chief Executive Officer
99.2	Section 906 Certification of Vice President, Corporate Controller & CIO
99.3	Section 906 Certification of Vice President, Finance and Treasurer

- Management contract or compensatory plan.

The Company agrees to furnish to the Securities and Exchange Commission a copy of any long-term debt instrument or loan agreement that it may request.

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed in the fourth quarter of 2002.

(c) Exhibits:

The exhibits listed in Item 15(a)(3) of this report, and not incorporated by reference, follow "Financial Statement Schedule" referred to in (d) below.

(d) Financial Statement Schedule and Report of Independent Accountants on Financial Statement Schedule:

The financial statement schedule and Report of Independent Accountants on Financial Statement Schedule listed in 15(a)(2) follow “Signatures”.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE ANDERSONS, INC. (Registrant)

By /s/Michael J. Anderson

Michael J. Anderson
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>	<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/Michael J. Anderson</u>	President and	3/19/03	<u>/s/John F. Barrett</u>	Director	3/19/03
Michael J. Anderson	Chief Executive Officer (Principal Executive Officer)		John F. Barrett		
<u>/s/Richard R. George</u>	Vice President, Controller & CIO	3/19/03	<u>/s/Paul M. Kraus</u>	Director	3/19/03
Richard R. George	(Principal Accounting Officer)		Paul M. Kraus		
<u>/s/Gary L. Smith</u>	Vice President, Finance &	3/19/03	<u>/s/Donald L. Mennel</u>	Director	3/19/03
Gary L. Smith	Treasurer (Principal Financial Officer)		Donald L. Mennel		
<u>/s/Richard P. Anderson</u>	Chairman of the Board	3/19/03	<u>/s/David L. Nichols</u>	Director	3/19/03
Richard P. Anderson	Director		David L. Nichols		
<u>/s/Donald E. Anderson</u>	Director	3/19/03	<u>/s/Sidney A. Ribeau</u>	Director	3/19/03
Donald E. Anderson			Sidney A. Ribeau		
<u>/s/Richard M. Anderson</u>	Director	3/19/03	<u>/s/Charles A. Sullivan</u>	Director	3/19/03
Richard M. Anderson			Charles A. Sullivan		
<u>/s/Thomas H. Anderson</u>	Director	3/19/03	<u>/s/Jacqueline F. Woods</u>	Director	3/19/03
Thomas H. Anderson			Jacqueline F. Woods		

Except for those portions of The Andersons, Inc. 2002 Annual Report to Shareholders specifically incorporated by reference in this report on Form 10-K, such annual report is furnished solely for the information of the Securities and Exchange Commission and is not to be deemed “filed” as a part of this filing.

Certifications

I, Michael J. Anderson, certify that:

1. I have reviewed this annual report on Form 10-K of The Andersons, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant’s other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 19, 2003

/s/Michael J. Anderson

Michael J. Anderson
President and Chief Executive Officer

Certifications

I, Richard R. George, certify that:

1. I have reviewed this annual report on Form 10-K of The Andersons, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant’s other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 19, 2003

/s/Richard R. George

Richard R. George
Vice President, Controller and CIO

Certifications

I, Gary L. Smith, certify that:

1. I have reviewed this annual report on Form 10-K of The Andersons, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant’s other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 19, 2003

/s/Gary L. Smith

Gary L. Smith
Vice President, Finance and Treasurer

Report of Independent Accountants on

Financial Statement Schedule

To the Board of Directors
of The Andersons, Inc.:

Our audits of the consolidated financial statements referred to in our report dated January 27, 2003 appearing in the 2002 Annual Report to Shareholders of The Andersons, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Toledo, Ohio
January 27, 2003

SCHEDULE II — CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
THE ANDERSONS, INC.

(in thousands) Description	Balance at Beginning of Period	Additions		Deductions - Describe	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts - Describe		
Allowance for doubtful accounts receivable:					
Year ended December 31, 2002	\$2,701	\$ 514	\$ -	\$ 201(1)	\$3,014
Year ended December 31, 2001	3,084	448	-	831(1)	2,701
Year ended December 31, 2000	3,980	776	-	1,672(1)	3,084
Allowance for doubtful notes receivable:					
Year ended December 31, 2002	\$ 472	\$(161)	\$ -	\$ 89(1)	\$ 222
Year ended December 31, 2001	698	(224)	-	2(1)	472
Year ended December 31, 2000	583	135	-	20(1)	698

(1) Uncollectible accounts written off, net of recoveries

EXHIBIT INDEX
THE ANDERSONS, INC.

Exhibit Number	
13	The Andersons, Inc. 2002 Annual Report to Shareholders
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THE ANDERSONS 2002 ANNUAL REPORT

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	[Pie Chart] 2002 REVENUES YEAR: \$1.1 BILLION	[Pie Chart] BEGINNING ALLOCATED CAPITAL (AS OF (1/1/02) TOTAL: \$202 MILLION	[Bar Chart] 2002 OPERATING INCOME TOTAL: \$19.8 MILLION
Agriculture	70.8%	39.9%	\$19.0
Processing	10.6%	21.7%	(1.3)
Rail	1.7%	19.4%	1.5
Retail	16.9%	19.0%	4.0
Other	--	--	(3.4)
	-----	-----	-----
	100.0%	100.0%	\$19.8
	=====	=====	=====

2002 ACCOMPLISHMENTS

- - Earned a record \$1.79 per diluted share vs. \$1.21 per diluted share in 2001
- - Shareholders enjoyed a 30% total return
- - Revenues grew 9% to \$1.1 billion
- - Strong cash flow added working capital and reduced long-term debt
- - Plant Nutrient achieved a record performance and Grain had its second best year ever
- - Signed letter of intent to form an LLC with Lansing Grain Company
- - Railcar utilization rate improved 10% in 2002
- - Retail's income grew by 114% in 2002
- - Retail added fresh meat in Toledo and Woodville and started reset of Woodville store
- - Achieved significant turnaround in Processing Group through improved efficiencies and cost reductions
- - Created an alliance with Powerspan Corp., developer of multi-pollutant control technology for power plants, to produce and market electro-catalytic oxidation fertilizer co-products.
- - Joined ICG Commerce's e-Procurement services to improve purchasing efficiencies

The Andersons, Inc. (Nasdaq: ANDE) is a diversified agribusiness and retailing company with annual revenues of \$1.1 billion. The company, which began operations in Maumee, Ohio in 1947 with one grain elevator and 500,000 bushels of storage capacity, today has four operating groups: AGRICULTURE, PROCESSING, RAIL and RETAIL. For more in-depth information about the company, please visit our website at www.andersonsinc.com.

FINANCIAL HIGHLIGHTS

(in thousands, except for per share and performance data)

	2002	2001	% CHANGE
<hr/>			
OPERATIONS			
Grain sales & revenues	\$ 583,254	\$ 480,219	21.5%
Fertilizer, retail & other sales	492,580	504,408	(2.3%)
<hr/>			
TOTAL SALES & REVENUES	\$1,075,834	\$ 984,627	9.3%
<hr/>			
Gross profit - grain	\$ 51,180	\$ 52,029	(1.6%)
Gross profit - fertilizer, retail & other	114,196	107,316	6.4%
<hr/>			
TOTAL GROSS PROFIT	\$ 165,376	\$ 159,345	3.8%
<hr/>			
Other income / gains (net)	\$ 3,741	\$ 3,841	(2.6%)
Income before income taxes and cumulative effect of accounting change	19,834	11,931	66.2%
Net income	13,319	8,857	50.4%
Effective tax rate	32.8%	24.2%	35.5%
Weighted average shares outstanding	7,283	7,281	--
<hr/>			
PER SHARE DATA			
Net income - basic	\$1.83	\$1.22	50.0%
Net income - diluted	1.79	1.21	47.9%
Dividends paid	0.26	0.26	--
Year end market value	12.70	10.00	27.0%
<hr/>			
PERFORMANCE			
Pretax return on beginning equity	20.9%	13.3%	
Net income return on beginning equity	14.0%	9.9%	
Funded long-term debt to equity ratio	.80-T0-1	.96-T0-1	
Number of employees	2,958	3,035	
<hr/>			
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)			
Income before income taxes and cumulative effect of accounting change	\$19,834	\$11,931	
Depreciation and amortization	14,314	14,264	
Interest	9,812	11,570	
<hr/>			
EBITDA	43,960	37,765	
Interest to carry grain inventories	(3,398)	(4,065)	
<hr/>			
EBITDA (net of interest to carry grain inventories)	\$40,562	\$33,700	
<hr/>			

Shareholders and friends,

The Andersons celebrated its 55TH year of growth and success in 2002 with a record-setting performance. Net income was \$13.3 million or \$1.79 per diluted share for 2002 compared to \$8.9 million or \$1.21 per diluted share in 2001. Total revenues of \$1.1 billion for 2002 rose 9% above revenues reported in 2001. Our shareholders have enjoyed excellent total returns (market price plus dividends) over the past two years - 30% in 2002 and 19% in 2001. Equity investors are returning to essential and basic industries for protection and long-term value as a result of the slowing economy, poor equity markets, and low bond interest rates. Agribusiness has been a good alternative for investors in these trying times.

The company's record performance and tight control over capital spending in 2002 strengthened our balance sheet. As a result, all measurements of working capital and leverage have improved. We are at our targeted long-term funded debt-to-equity ratio of 0.8 to 1.

Your company is committed to deliver quality, integrity, honesty, and fairness in its products, services, and reporting. We are also committed to creating value for our customers, shareholders, communities and employees. We are stewards of precious resources, we endeavor to honor God, and be respectful of each other in our efforts. Since we are a company of people engaged in these pursuits, we have featured a few of our 3,000 employees in the 2002 annual report. Our PEOPLE make it happen! We only wish we could feature more of them.

The AGRICULTURE GROUP achieved its second best operating performance, finishing slightly behind its 2001 performance. While grain production in the region was below average due to last year's wet planting and summer drought conditions, margin on grain sales was strong. Overall, earnings from grain storage were lower than 2001. The Plant Nutrient Division (formerly the Wholesale Fertilizer and Farm Center Divisions) reported a 7% increase in fertilizer sales volume. Attention to expenses, inventory positions, margin control and facility utilization were key to their success.

The other three business units all reported significant improvement for 2002. The RETAIL GROUP reported 114% higher income in 2002 over that reported in 2001. Retail achieved slightly higher sales, but most significant improvement came from vigilant attention to gross profit and operating expenses. Lower railcar lease rates and the slowing economy continue to impact the RAIL GROUP. However, with improved fleet utilization and reduced carrying costs, Rail reported its best performance since 1999. The PROCESSING GROUP made the most significant turn around. Although not yet in the black, improved plant utilization, better control over raw material costs and right sizing the business all played a part in Processing's improved performance in 2002.

On the CORPORATE side, we were blessed with lower interest rates, but burdened with higher employee benefit and insurance costs. In spite of these higher costs, we kept a purposeful tight rein on operating, administrative and general expenses, which in total were slightly below those of 2001. For more details on last year's performance, see the business review pages in this report.

The prospects for 2003 are good. At this point we do not believe we can exceed the record performance we had in 2002; however, we expect to capitalize on many of the competencies we have built over the last 55 years. We have always stated our performance will reflect the cyclical

and seasonal nature of our industries. The weak 2002 harvest will negatively impact 2003 income, but these are expected road bumps we manage through from time to time. It comes with the industry.

We have a long history of physical handling, storing, maintaining, formulating, transporting and financial management of bulk materials. Our experience has provided us with the opportunity to enhance those bulk materials into value added products and services that provide solutions for our customers. Our strategic financial goals include increasing market value, specific growth objectives for each Group and attaining targeted levels of income by 2005. Achieving these goals is more than asset and cost control alone. It requires finding the future products and services to serve current and new customers who will be the future source of sales and profit.

The AGRICULTURE GROUP, which includes the Grain Division and Plant Nutrient Division (PND), forms our largest investment and the base on which most of our other businesses were created. We continue to believe population growth, demand for improved diets and higher standards of living will benefit those invested in the U.S. agriculture system, including The Andersons.

The Grain Division ended 2002 with 56 million bushels of grain in storage, which is a good starting point. However, with last year's poor harvest, we are predicting lower storage income for 2003 as we expect grain inventory to be shipped earlier than usual. On the positive side, winter wheat plantings in our region are estimated to be 2.9 million acres, 23% above last year, which should provide opportunities in 2003. Higher corn prices should also encourage producers to increase plantings in 2003, and higher corn production offers us more margin opportunity than on soybeans. Grain supply and demand are directly impacted by good growing conditions in our marketing region; consequently, much of 2003's performance is dependent on the fall harvest.

Producers make huge investments in the next growing season - inputs, rent, equipment, land, etc. To help them make complex decisions about crop production and marketing, we offer our Crop Revenue Profiler(R) software program. This software program integrates the variables of crop insurance and government programs with our grain marketing philosophy to help producers achieve a more predictable result, thus reducing the impact of volatile crop prices. When our customers are successful, it enhances our profitability.

We continue to develop our progressive grain marketing tools, such as Freedom ContractsSM, to assist producers in pricing decisions. In 2002 we began taking these contracts and marketing ideas outside our historic marketing region. What we call "portable originations" has been a way to contract with and serve customers without physically handling the grain. In addition, we have developed web-based customer contracts, statements and other information to help customers track and manage their contract positions.

In 2003, the Grain Division became a minority investor in Lansing Grain Company LLC, which is a 77-year old grain trading business with offices in Michigan, Minnesota, and Kansas. This investment should benefit both parties as we serve different market sectors and geographic regions.

The Plant Nutrient Division's focus is on consistent, dependable year-round logistics and supply. Higher grain prices and the newly signed U.S. Farm Bill are positive signs for PND in 2003. Cash flow at the producer level is reported to be strong, which should allow producers to buy the

necessary inputs for the 2003 planting season. The division continues to add capacity and re-capitalize existing assets to provide customers with a complete line of nutrient inputs and services.

In addition, PND is investing more time and talent to serve the specialty agriculture, industrial and non-agricultural markets. Several new products introduced in the past year include liquid roadway and runway de-icers and anti-icers, specialty biological nutrients for wastewater treatment and specialty nutrients for agriculture.

In the RAIL GROUP, railcar prices and lease rates are beginning to stabilize, which is a positive sign for 2003. Although new railcar production has been cut dramatically in recent years, there is usually demand for less expensive rebuilt-cars. We are positioned to meet this demand with rolling stock and our railcar repair and fabrication shops. Not only can these facilities repair and rebuild cars, it can also design and build bulkheads, gates, and hatches to match customer demand. With capabilities both in the railcar repair and fabrication business, it's easier to meet customer needs in the lease business. Our goal is to be the Total Rail Solutions(SM) provider for our railcar customers. Plans are for Rail to add a new repair facility in South Carolina in 2003.

Rail had 5,699 railcars under management at the end of 2002, 5% more than in 2001. In addition, we have 51 locomotives under management. We ended 2002 with 85% of the railcars under management in service. This is up 10% from 2001, a huge improvement. Our utilization objective in 2003 is to be at 90%. We continue to believe this business can grow at a 20% annual rate for the near future. We have found opportunities by purchasing railcars with attached leases from investors looking to re-balance or modify their portfolios. With the sluggish economy, our focus is on short-term lease deals (where the largest demand is), diligent management of railcars, monitoring credit quality, valuation and positions, and stepping up our sales and marketing efforts.

The PROCESSING GROUP made a sizable turnaround in 2002 and expects to be in the black in 2003. The business was reorganized to capture efficiencies in the areas of marketing, operations, and reporting/systems. We are implementing a cost system and are studying total IT systems needs. We have better control over ingredient costs by sourcing raw material earlier, margins have improved, and we are paying very close attention to working capital usage. We still have more work to do in order to get Processing to achieve an acceptable return.

Lawn fertilizer shipments increased 3% in 2002, and they are expected to grow 3% in 2003. The "big box retail" consumer lawn fertilizer business is dynamic. However, because these larger customers have greater demands, change can be rewarding or painful. We have successfully served this market for decades and continue to believe we have opportunity to profitably add value as a private label supplier to the industry. For 2003 we landed a new international private label for U.S. distribution and expect this relationship to grow in future years.

Our professional turf business, Andersons Golf Products(TM), has stabilized and is expected to grow by 8% in 2003. Our goal for this business is to increase distribution to New England and the Southeastern U.S.

The Processing Group's other businesses, cob-based carriers and animal bedding/litter products, were modestly profitable in 2002. There are a number of new products being tested in the marketplace that show promise for 2003.

Our RETAIL GROUP'S focus on MORE FOR YOUR HOME(R) is paying off as noted by their 2002 improved performance. The addition of a fresh meat market in the Maumee Store was such a huge success that we added similar markets to the Toledo and Woodville stores. The addition complements our deli, bakery, produce and wine offerings and gives customers the convenience of one-stop food shopping. We are now considering fresh meat markets for our Central Ohio stores as well.

This year we are rolling out a new shopping concept at our Woodville store designed to increase the average per-customer sale. The new store concept features a floor plan that improves customer flow and significantly increases the number of merchandise end-caps to more prominently feature selected merchandise.

Margins are up in 2002 as a result of vigilant control over markdowns. We will focus on inventory turns, in-stock performance, labor utilization efficiency and improved technologies in 2003.

The most important issue for Retail is growth - will there be a seventh store? We have been evaluating our long-term growth potential, testing site selection models and investigating a few specific sites. We expect to finalize a decision in 2003.

On the ADMINISTRATIVE front we have been watchful of our operating, administrative and general expenses, developing and extending our use of ERP systems and technology, and intensifying strategic sourcing and procurement efforts to find more efficient and less expensive business practices.

Interest expense improved by \$1.8 million in 2002, mainly from lower interest rates. As a result of the lower interest rate environment, we made a number of capital market moves that we believe will benefit the company in 2003 and beyond. In November, we completed a \$200 million short and long-term credit line syndicated with six major banks. In addition, we restructured our long-term debt, increasing the fixed rate portion to 90% of the total outstanding. Net working capital is up by 7%. Capital spending was managed very closely and as a result, operating cash flow was strong, all of which strengthened the year-end balance sheet.

Our balance sheet has grown to over \$469 million in total assets. Most of the asset growth is in grain inventories. Contrary to the way most non-commodity businesses operate, high grain inventories are generally a positive indicator for the near future. In our remaining businesses, we are striving to use working capital more efficiently.

We expected an improvement in operating income in 2002 and that was accomplished. We thank our 3,000 hard working, creative and dedicated employees who provide extraordinary products and service to our customers.

We are grateful to them, to our customers and suppliers, and to you our shareholders. We believe in honesty, integrity, and mutual respect for our employees, customers and shareholders. These values will prevail at The Andersons.

One final note. We want to extend our thanks to two long-time board members, Don Anderson and Rick Anderson, who are stepping down this year. Their dedication and guidance for the past 14 years have been invaluable. In the future, the board's governance / nominating committee will be seeking candidates to fill these two vacancies. Their choices will reflect The Andersons' commitment to a diversified board with a majority of non-management directors that represent a wide range of interests and business philosophies.

Sincerely

/s/ Mike
Mike Anderson, CEO & President

/s/ Dick
Dick Anderson, Chairman of the Board

WITH THANKS

Don Anderson
Director, 1988-2002

One of the six children of our founder Harold Anderson, Don's career with the company started at its inception in 1947 and continued to his retirement in 1996 as Director of Science. For the last 15 years Don has shared his wisdom and expertise as a member of our Board of Directors. Don is stepping down from the Board this year. We want to express our sincere thank you to him for his many years of service and dedication to The Andersons.

Rick Anderson
Director, 1988-2002

Rick joined The Andersons in 1986 and has been a member of the Board of Directors for the last 15 years. Although Rick will no longer be a member of our Board, he continues to serve the Company as President of the Processing Group. Thank you to Rick for his contributions and service to The Andersons Board of Directors and for his continued leadership of our Processing Group.

AGRICULTURE GROUP

The AGRICULTURE GROUP operates grain elevators and plant nutrient formulation and distribution facilities in Ohio, Michigan, Indiana and Illinois. The group's elevators receive large quantities of grain and oilseeds (primarily corn, soybeans and wheat) from farms and country elevators in the region, store and condition it, then market it via rail or ship to domestic and export processors. The plant nutrient distribution facilities formulate and market large volumes of dry and liquid agricultural nutrients to dealers, distributors and company-owned farm centers. The group is a formulator of technologically advanced, environmentally friendly, liquid anti-icers for use in runway and roadway applications.

In 2002, the Agriculture Group's operating income was \$19 million, the second highest performance in its 55-year history, topped only by the record set in 2001. Total revenues of \$762 million in 2002 were almost \$100 million higher than the previous year.

The drought that affected grain production in the region this past summer broke a five-year string of relatively good growing seasons in the eastern corn belt. Fewer bushels were delivered to the group's elevators, and ending corn, soybean and wheat stocks in the U.S. also declined. As a result, the group's earnings from storing grain were lower than they were in 2001. Demand from grain processors remained strong resulting in double-digit percentage price increases, excellent margins, and increased gross profit from handling and conditioning grain. The group also experienced earnings growth from its emerging AgriPartners(R) Plus, Gold and Platinum service businesses, offering various information, marketing, crop insurance programs and licensing agreements to producers and elevators throughout the corn belt.

The Plant Nutrient Division's wholesale tonnage volume increased in 2002 and gross margins remained strong. As a result, this business experienced growth in revenues, gross profit and operating income, surpassing its previous earnings record. Market share gains were achieved in its core plant nutrient formulation and distribution business through a strong customer focus, an excellent market position with basic manufacturers and strategically located assets. Twenty percent growth was achieved in the industrial and specialty agricultural customer sector as well.

The group's farm centers again achieved a modest operating profit for the year. Custom application acreage increased in 2002, and expenses were pared by consolidating some locations to improve efficiency.

A sizable portion of the Company's total spending on plant and equipment in 2002 was allocated to the Agriculture Group. In addition to numerous facility recapitalization projects, significant investments were made to improve the loadout and grain-cleaning capabilities of its river elevator in Toledo and to increase the storage capacity three-fold at its fertilizer terminal in Lordstown, Ohio to better serve the group's growing customer base in eastern Ohio, Pennsylvania and western New York. Early in 2003, the group also completed a joint venture transaction with Lansing Grain, a grain trading company, to form a new limited liability company that will serve as a platform for future growth initiatives.

[Bar Charts]

	1998	1999	2000	2001	2002
SALES & REVENUES	\$829	\$674	\$648	\$663	\$762
OPERATING INCOME	6.7	6.1	14.3	19.8	19.0
UNIT VOLUMES					
Grain Bushel Receipts (Millions)	157	158	156	155	142
Grain Bushels Shipped (Millions)	204	182	165	165	180
Wholesale Fertilizer Sales and Service Tons (000)	1,201	1,293	1,306	1,360	1,423
Farm Center Application Acres (000)	333	552	479	475	491

PROCESSING GROUP

The PROCESSING GROUP manufactures turf and ornamental plant fertilizer and control products for sale by major retailers in the U.S. and is the industry's leading supplier of premium turf-care products for golf courses and other professional markets. It also produces corncob-based chemical and feed ingredient carriers, animal bedding, cat litter and ice-melter products. The group operates facilities in Maumee and Bowling Green, Ohio; Montgomery, Alabama; Pottstown, Pennsylvania; and Delphi, Indiana.

Total revenues were \$114 million in 2002, slightly higher than the \$113 million realized in 2001. The group's bottom line reflected a significantly larger improvement, reducing the prior year loss by more than \$6 million.

The volume of turf fertilizer sold in the U.S. in 2002 was negatively impacted by the unusually dry summer throughout much of the country. The group's turf business was able to achieve a 3 percent increase in volume for the year, however, with growth in total sales to consumer and industrial accounts more than offsetting lower volumes going into professional markets. Average gross margins improved due to lower ingredient costs, primarily nitrogen, and a noticeable shift from straight fertilizers to higher-margin control products.

Retailers across the country continued to focus on controlling in-store inventories and just-in-time delivery of product to their stores. Sales of turf-care products to the golf course market were hurt when the number of golf rounds played in the U.S. declined for the third straight year.

Late in the year, the Processing Group began shipping a new line of turf-care products that consumers will begin to see on a major retailer's shelves in 2003.

The group's other businesses, primarily the manufacturing of cob-based chemical and feed ingredient carriers, animal bedding and litter products, achieved modest bottom-line improvement in 2002.

[Bar Charts]

	1998	1999	2000	2001	2002
SALES & REVENUES	\$ 76.4	\$ 85.0	\$ 107.4	\$ 112.8	\$114.3
OPERATING INCOME (LOSS)	\$ 2.8	\$ (0.1)	\$ (3.5)	\$ (7.7)	\$ (1.3)

RAIL GROUP

The RAIL GROUP sells and leases railcars and locomotives. It also repairs and reconfigures various types of railcars to meet customer specifications, and operates a custom steel-fabrication business. The group's rail marketing business has grown significantly in recent years and now has approximately 5,700 railcars and 51 locomotives under management. The fleet consists of covered hopper cars, boxcars, open top hopper cars, gondolas, and tank cars. The group leases its rolling stock to shippers, railroads and fleet owners in a wide range of industries throughout North America.

The group's total revenues were \$18.7 million in 2002. This was \$12.4 million, or 40 percent, below the \$31.1 million generated in 2001. Revenues from railcar and locomotive leasing and the group's two shops increased in the past year, but the absence of any significant car sales in 2002 caused total revenues to decline.

The fleet of cars managed by this group continued to grow in 2002. Significant improvement was also achieved in the utilization rate of the railcar fleet from 75 percent in 2001 to 85 percent at the end of 2002, following two successive years of decline. Because of the overall fleet growth and improved fleet utilization, more cars were in income-producing service, fewer cars were out of service, and total leasing income increased.

Operating income also improved in 2002 primarily because of the writedown of the value of certain railcars during 2001. In total, the group achieved an operating income of \$1.6 million in 2002, an improvement of \$1.9 million from the operating loss of \$0.3 million reported for 2001.

Although no noticeable rebound has yet emerged in car values and lease rates for some types of railcars, two areas which have been in a cyclical downturn for the past three years, the group has positioned itself well and demonstrated its ability to achieve income growth through a well-managed leasing program.

The railcar repair shop and the fabrication shop performed well in 2002. The integration of these shops with the rail marketing business continues to bear fruit. As the Rail Group strives to be a Total Rail Solutions(SM) provider for its customers, some exciting opportunities are emerging. In component manufacturing, for example, the group has the ability to design a component, manufacture it, install it on a car, then lease the refurbished car to a customer. As the group continues to build the lease fleet, it is taking care to diversify it in terms of lease duration, car types, industries, customers and geographic dispersion. The Rail Group will continue to monitor credit quality of its customers diligently, and to match fund assets and liabilities as much as possible to effectively manage risk.

[Bar Charts]

	1998	1999	2000	2001	2002
SALES & REVENUES	\$ 50.4	\$ 55.3	\$ 19.0	\$ 31.1	\$ 18.7
OPERATING INCOME (LOSS)	\$ 4.4	\$ 4.2	\$ 1.0	\$ (0.3)	\$ 1.6
CARS UNDER MANAGEMENT					
Railcars	4,082	4,420	4,815	5,432	5,699
Locomotives	--	30	30	51	51

RETAIL GROUP

The RETAIL GROUP operates six large stores in Ohio; three in the Toledo area, two in Columbus and one in Lima. Four are stand-alone facilities with in-store selling space of 130,000 or more square feet each. The other two are slightly smaller mall-based units. The goal of the Retail Group is to serve the needs of homeowners more effectively than competing home centers and mass merchants. The group's central message to the retail customer is MORE FOR YOUR HOME(R). The product offering includes a broad array of traditional home center merchandise-plumbing, electrical and building supplies, hardware, tools, kitchen and bath design, flooring, paint and lighting products. In addition to these, the stores feature lawn and garden products, extensive lines of housewares and domestics, workwear, pet supplies, automotive supplies and sporting goods. Each store also has an Uncommon Market(TM) with a unique offering of high quality foods including produce, a deli, a bakery, specialty gourmet foods, frozen and fresh meats, and one of the largest selections of fine wines in the Midwest.

Despite the general sluggishness reported by retailers across the country, total sales for the Retail Group grew by 1.8% this year, from \$178 million in 2001 to \$181 million in 2002. Operating income of \$4.0 million for the year was more than double the \$1.9 million realized in 2001.

Although the number of shoppers in the group's stores last year was virtually unchanged from a year ago, the average amount purchased by customers was higher and average gross margins also improved from year-earlier levels.

The addition of a fresh meat business in two more stores in 2002 was received enthusiastically by customers. All three Toledo-area stores now offer this new product category. In addition, above-average growth was achieved in several Uncommon Market(TM) product categories, most notably produce, deli and specialty foods.

The Retail Group also continued to focus heavily on operational improvements in 2002. Total store labor hours were again reduced from year-earlier levels without a reduction in customer service levels. In-stock performance showed gains, exceeding 2001's monthly levels throughout the year. Total in-stock performance was the highest it has been in the six years this metric has been measured.

In addition to numerous facility recapitalization projects, the Retail Group made a significant investment to upgrade the already very successful garden center at the Toledo store. It also began a major remodeling project at another store to test a concept that will improve product accessibility for customers and greatly increase the number of promotional displays throughout the store.

Constant attention to product mix enhancements and operational efficiency are driven by the group's desire to out-perform the competition in the customer's total shopping experience.

[Bar charts]

	1998	1999	2000	2001	2002
SALES & REVENUES					
Retail	\$ 174	\$ 181	\$ 184	\$ 178	\$ 181
OPERATING INCOME					
Retail	\$ 1.7	\$ 2.6	\$ 3.2	\$ 1.9	\$ 4.0

SELECTED FINANCIAL DATA

	2002	2001	2000	1999	1998
(in thousands, except for per common share data)					
Operating Results					
Total sales & revenues	\$1,075,834	\$ 984,627	\$ 961,122	\$1,005,922	\$1,140,445
Net income	13,319(a)	8,857(a)	10,078(b)	8,379	9,752
Per common share data:					
Earnings - diluted	1.79	1.21	1.34	1.03	1.20
Dividends paid	0.26	0.26	0.24	0.20	0.16
Balance Sheet Data					
Total assets (c)	\$ 469,815	\$ 458,324	\$ 442,965	\$ 379,663	\$ 362,663
Working capital	80,830	75,228	55,260	67,939	65,898
Long-term debt (d)	84,272	91,316	80,159	74,127	71,565
Shareholders' equity	104,840	94,934	89,836	84,805	82,734

- (a) Gains of \$0.3 million (\$0.2 million after tax) for insurance settlements are included in each of 2002 and 2001
- (b) Gains of \$2.1 million for an insurance settlement and \$1.0 million on the sale of a business are included (\$2.0 million after tax).
- (c) Includes restatement of pension asset for all years presented
- (d) Excludes current portion.

QUARTERLY FINANCIAL DATA AND MARKET FOR COMMON STOCK

(in thousands, except for per common share data)			Net Income (Loss)	Common Share Quote			Dividends Declared
Net Sales	Gross Profit	Amount	Per Share- Basic	High	Low		

Quarter Ended							
2002							
March 31	\$ 214,831	\$ 36,020	\$ 1,609	\$ 0.22	\$ 10.40	\$ 9.35	\$ 0.065
June 30	301,098	49,083	8,760	1.20	13.75	10.12	0.065
September 30	204,722	34,475	(84)	(0.01)	13.60	11.76	0.065
December 31	355,183	45,798	3,034	0.42	13.00	11.38	0.070

Year	\$1,075,834	\$ 165,376	\$13,319	1.83			\$ 0.265
=====							
2001							
March 31	\$ 218,007	\$ 35,115	\$ (815)	\$ (0.11)	\$ 8.94	\$ 8.03	\$ 0.065
June 30	273,064	48,260	7,274	1.00	8.88	7.50	0.065
September 30	186,518	31,314	(1,905)	(0.26)	10.00	7.72	0.065
December 31	307,038	44,656	4,303	0.60	10.00	8.51	0.065

Year	\$ 984,627	\$ 159,345	\$ 8,857	1.22			\$ 0.260

Report of Independent Accountants

To the Board of Directors and
Shareholders of The Andersons, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of shareholders' equity, as presented on pages 16 through 19 and pages 24 through 36, present fairly, in all material respects, the financial position of The Andersons, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Toledo, Ohio
January 27, 2003

The Andersons, Inc.
Consolidated Statements of Income

(in thousands, except per common share data)	YEAR ENDED DECEMBER 31		
	2002	2001	2000
Sales and merchandising revenues	\$ 1,075,834	\$ 984,627	\$ 961,122
Cost of sales and merchandising revenues	910,458	825,282	804,159
Gross profit	165,376	159,345	156,963
Operating, administrative and general expenses	139,471	139,685	137,839
Interest expense	9,812	11,570	11,829
Other income / gains:			
Other income (net)	3,439	3,503	3,989
Gain on insurance settlements	302	338	2,088
Gain on sale of business	--	--	992
Income before income taxes and cumulative effect of accounting change	19,834	11,931	14,364
Income tax provision	6,515	2,889	4,286
Income before cumulative effect of accounting change	13,319	9,042	10,078
Cumulative effect of change in accounting principle, net of income tax benefit	--	(185)	--
Net income	\$ 13,319	\$ 8,857	\$ 10,078
Per common share:			
Basic earnings	\$ 1.83	\$ 1.22	\$ 1.34
Diluted earnings	\$ 1.79	\$ 1.21	\$ 1.34
Dividends paid	\$ 0.26	\$ 0.26	\$ 0.24

The Notes to Consolidated Financial Statements on pages 21-32 are an integral part of these statements.

The Andersons, Inc.
Consolidated Balance Sheets

(in thousands)	DECEMBER 31 2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,095	\$ 5,697
Accounts and notes receivable:		
Trade receivables, less allowance for doubtful accounts		
of \$3,014 in 2002; \$2,701 in 2001	59,800	51,080
Margin deposits	--	3,756
	59,800	54,836
Inventories	256,275	238,291
Railcars available for sale	550	11,932
Deferred income taxes	3,491	3,963
Prepaid expenses and other current assets	11,675	11,954
Total current assets	337,886	326,673
Other assets:		
Pension asset	5,828	4,248
Other assets and notes receivable, less allowance for doubtful notes		
receivable of \$222 in 2002; \$472 in 2001	5,794	5,344
Investments in and advances to affiliates	969	956
	12,591	10,548
Railcar assets leased to others, net	26,399	26,102
Property, plant and equipment, net	92,939	95,001
	\$469,815	\$458,324
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 70,000	\$ 82,600
Accounts payable for grain	75,422	66,968
Other accounts payable	60,285	50,996
Customer prepayments and deferred income	21,970	22,683
Accrued expenses	19,604	17,824
Current maturities of long-term debt	9,775	10,374
Total current liabilities	257,056	251,445
Deferred income	717	2,209
Other long-term liabilities	381	223
Employee benefit plan obligations	12,198	9,550
Long-term debt, less current maturities	84,272	91,316
Deferred income taxes	10,351	8,647
Total liabilities	364,975	363,390
Shareholders' equity:		
Common shares, without par value		
Authorized -- 25,000 shares		
Issued -- 8,430 shares at stated value of \$0.01 per share	84	84
Additional paid-in capital	66,662	66,431
Treasury shares, at cost (1,258 in 2002; 1,174 in 2001)	(12,558)	(10,687)
Accumulated other comprehensive loss	(815)	(964)
Unearned compensation	(73)	(83)
Retained earnings	51,540	40,153
	104,840	94,934
	\$469,815	\$458,324

The Notes to Consolidated Financial Statements on pages 21-32 are an integral part of these statements.

The Andersons, Inc.
Consolidated Statements of Cash Flows

(in thousands)	YEAR ENDED 2002	DECEMBER 31 2001	2000
<hr/>			
OPERATING ACTIVITIES			
Net income	\$13,319	\$ 8,857	\$10,078
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	14,314	14,264	13,119
Provision for losses on accounts and notes receivable	353	224	911
Cumulative effect of accounting change, net of income tax benefit	--	185	--
Gain on insurance settlements	(302)	(338)	(2,088)
Gain on sale of business	--	--	(992)
Gain on sale of property, plant and equipment	(406)	(336)	(35)
Realized and unrealized (gains) losses on railcars	(179)	1,172	(110)
Deferred income tax provision (benefit)	2,709	(539)	2,242
Other	91	368	111
	<hr/>		
Cash provided by operations before changes in operating assets and liabilities	29,899	23,857	23,236
Changes in operating assets and liabilities:			
Accounts and notes receivable	(5,249)	2,080	(6,984)
Inventories	(17,984)	(26,428)	(35,811)
Prepaid expenses and other assets	(474)	(117)	(3,604)
Accounts payable for grain	8,454	(500)	(1,415)
Other accounts payable and accrued expenses	8,603	(5,000)	6,274
	<hr/>		
Net cash provided by (used in) operating activities	23,249	(6,108)	(18,304)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(9,834)	(9,155)	(16,189)
Purchases of railcars	(8,203)	(21,790)	(16,245)
Purchase of U.S. ProTurf(R) and other business assets	--	--	(16,311)
Proceeds from sale of railcars	15,985	15,376	3,821
Proceeds from sale of property, plant and equipment	598	951	240
Proceeds from insurance settlements	302	338	2,346
Proceeds from sale of business	--	--	2,133
	<hr/>		
Net cash used in investing activities	(1,152)	(14,280)	(40,205)
FINANCING ACTIVITIES			
Net increase (decrease) in short-term borrowings	(12,600)	11,300	26,300
Proceeds from issuance of long-term debt	22,333	23,250	194,723
Payments of long-term debt	(29,976)	(10,845)	(187,417)
Change in overdrafts	2,866	(7,796)	17,827
Payment of debt issue costs	(634)	--	--
Proceeds from sale of treasury shares under stock compensation plans	840	332	363
Dividends paid	(1,903)	(1,907)	(1,819)
Purchase of treasury shares	(2,625)	(1,387)	(3,944)
	<hr/>		
Net cash provided by (used in) financing activities	(21,699)	12,947	46,033
	<hr/>		
Increase (decrease) in cash and cash equivalents	398	(7,441)	(12,476)
Cash and cash equivalents at beginning of year	5,697	13,138	25,614
	<hr/>		
Cash and cash equivalents at end of year	\$ 6,095	\$ 5,697	\$ 13,138
	<hr/>		
NONCASH INVESTING ACTIVITIES			
Acquisition of intangible assets in exchange for long-term debt			\$ 3,879
			<hr/>

The Notes to Consolidated Financial Statements on pages 21-32 are an integral part of these statements.

The Andersons, Inc.

Consolidated Statements of Shareholders' Equity

(in thousands)	Common Shares	Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Loss	Unearned Compensation	Retained Earnings	Total
	-----	-----	-----	-----	-----	-----	-----
Balances at January 1, 2000	\$ 84	\$ 67,227	\$ (7,158)	\$ (144)	\$ (158)	\$ 24,954	\$ 84,805
Net income						10,078	10,078
Other comprehensive income:							
Minimum pension liability, net of \$0.1 million income taxes				144			144
Comprehensive income							10,222
Stock awards, stock option exercises, and other shares issued to employees and directors (130 shares)		(96)	607		(148)		363
Issuance of shares to complete acquisition		(643)	643				--
Amortization of unearned compensation					228		228
Purchase of treasury shares (477 shares)			(3,944)				(3,944)
Dividends declared (\$0.245 per common share)						(1,838)	(1,838)
Balances at December 31, 2000	84	66,488	(9,852)	--	(78)	33,194	89,836
Net income						8,857	8,857
Other comprehensive income (loss):							
Cumulative effect of accounting change				(1,172)			(1,172)
Other				208			208
Comprehensive income							7,893
Stock awards, stock option exercises, and other shares issued to employees and directors, net of tax (62 shares)		(57)	552		(163)		332
Amortization of unearned compensation					158		158
Purchase of treasury shares (166 shares)			(1,387)				(1,387)
Dividends declared (\$0.26 per common share)						(1,898)	(1,898)
Balances at December 31, 2001	84	66,431	(10,687)	(964)	(83)	40,153	94,934
Net income						13,319	13,319
Other comprehensive income:							
Cash flow hedge activity, net of income tax of \$0.5 million				149			149
Comprehensive income							13,468
Stock awards, stock option exercises, and other shares issued to employees and directors, net of income tax of \$0.3 million (132 shares)		231	754		(145)		840
Amortization of unearned compensation					155		155
Purchase of treasury shares (216 shares)			(2,625)				(2,625)
Dividends declared (\$0.265 per common share)						(1,932)	(1,932)
Balances at December 31, 2002	\$ 84	\$ 66,662	\$ (12,558)	\$ (815)	\$ (73)	\$ 51,540	\$ 104,840

The Notes to Consolidated Financial Statements on pages 21-32 are an integral part of these statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING RESULTS

Operating results for The Andersons, Inc. business segments are discussed in the Business Review on pages 6-13 of this annual report. In addition, Note 13 to the consolidated financial statements displays selected financial information for each of the Company's business segments. The following discussion focuses on the operating results as shown in the consolidated statements of income.

COMPARISON OF 2002 WITH 2001

Sales and merchandising revenues for 2002 totaled \$1.08 billion, an increase of \$91.2 million, or 9%, from 2001. Sales in the Agriculture Group were up \$109.8 million, or 18%. Increased grain sales of \$114.4 million included both a 9% volume increase and a 16% increase in the average price of bushels sold. All grains showed price per bushel increases and bushel volume was up for corn and wheat. Fertilizer sales were down \$4.6 million, or 3%, due to a 9% decrease in the average price per ton sold, partially offset by a 7% increase in tons sold. Revenues in both grain and fertilizer businesses are significantly impacted by the market price of the commodities being sold.

Merchandising revenues in the Agriculture Group were down \$11.0 million, or 23%, due to decreases in space income (before interest charges) in the grain division. Space income is income earned on grain held for our account or for our customers and includes storage fees earned and appreciation or depreciation in the value of grain owned. Grain on hand at December 31, 2002 was 56.3 million bushels, of which 13.4 million bushels were stored for others. This compares to 65.4 million bushels on hand at December 31, 2001, of which 10.4 million bushels were stored for others.

The results of the 2002 harvest were mixed with poor yields in some portions of the Company's market area. As a result, management expects that the 14% decline in grain held in the Company's facilities from year to year will negatively impact space income in the first half of 2003. The higher grain prices, however, may favorably impact the fertilizer business for the same period. Wheat acreage (planted in 2002 for harvest in July 2003) in the Company's market area has increased and management expects that corn acreage to be planted in Spring 2003 will increase as well, due to the higher corn prices. However, poor weather during the spring planting season may unfavorably impact the corn and soybean planted acreage during that time.

The Processing Group had a \$1.5 million, or 1%, increase in sales and merchandising revenues resulting primarily from an overall 3% increase in lawn division tons sold, partially offset by a 3% decrease in the average price per lawn division ton sold. The industrial lawn business (where the Group is responsible only for the contract manufacturing of product and does no marketing) continues to grow in relative size, due, in part, to the movement of a large consumer customer to an industrial relationship. The Company receives less margin for industrial tons, as compared to consumer tons, because it is acting primarily as a contract manufacturer and not incurring certain sales and marketing costs. Further, the Company is no longer required to accept returns from the customer. The reduction of returns and elimination of marketing costs contributed to the sales increase. The professional lawn business continues to be impacted by general softness in the golf course market and a reduction in the number of rounds played.

The Rail Group had a \$12.3 million, or 40%, decrease in sales. While lease revenue was up \$1.8 million, or 14%, in 2002, sales of railcars were down \$15.2 million. Sales in the fabrication and rail repair shops were up \$1.1 million. Railcars under management at December 31, 2002 were 5,699 compared to 5,432 under management at December 31, 2001. Locomotives under management were 51 for both 2001 and 2002. The railcar utilization (railcars in lease service) rate increased from 75% at December 31, 2001 to 85% at the end of December 2002.

The Retail Group had a 1.8% increase in same-store sales and revenues in 2002 as compared to 2001. Individual store results were mixed, however both the Toledo and Columbus markets showed increases. In addition, three of the six stores have added a fresh meat counter since the third quarter of 2001. This business is managed by a third party and the Company earns commissions on sales of fresh meat; these commissions have been included in merchandising revenues. The Company expects that significant new competition in the Toledo market may impact sales in 2003. The Company is also in the process of testing a new store layout in one of its Toledo area stores which should improve customer flow.

Gross profit for 2002 totaled \$165.4 million, an increase of \$6.0 million, or 4%, from 2001. The Agriculture Group had a \$0.9 million, or 1%, decrease in gross profit, in spite of the significant increase in revenues mentioned previously. Gross profit in the grain division totaled \$51.2 million, a decrease of \$0.8 million, or 2%. The fertilizer businesses of the Agriculture Group recognized a decrease in gross profit of \$0.1 million, primarily due to a decrease in gross profit per ton, nearly offset by increased volume of fertilizer sold.

Gross profit for the Processing Group in 2002 increased \$2.5 million, or 12%, when compared to 2001. Overall gross profit per ton for the Processing Group was up 11%. Although there was a 3% decrease in average price per lawn ton sold, there was also a 5% decrease in the average cost of a lawn ton. Coupled with the volume increase in the lawn division and the gross profit impact of the reduction in returns and marketing costs mentioned previously, lawn division gross profit was up \$2.8 million, or 16%. The cob-based businesses experienced a decrease of \$0.3 million, or 8%, in gross profit, resulting in the overall \$2.5 million increase for the Group.

Gross profit in the Rail Group increased \$1.5 million, or 20%. Of this increase, \$0.4 million was due to the improved performance of the lease fleet primarily related to the increase in railcars in service. In addition, the Group took a \$0.3 million non-cash charge to recognize a permanent impairment in the value of certain railcars in 2002; the Group took a comparable charge of \$1.5 million in 2001.

Gross profit in the Retail Group increased \$2.9 million, or 6%, from 2001. This was due to both the increase in sales discussed previously and a percentage point increase in margins. This margin increase results primarily from changes in product mix and better management of promotional programs and markdowns.

The Company recorded gains of \$0.3 million in each of 2002 and 2001 related to insurance recoveries.

Operating, administrative and general expenses for 2002 totaled \$139.5 million, a \$0.2 million decrease from 2001. Full-time employees increased 2% from 2001, however, labor expense decreased \$1.0 million, or 1%. The majority of the decrease relates to severance costs of \$1.3 million in 2001 compared to \$0.4 million in 2002. Benefit costs, however, rose 11% due to the increased cost of providing pension

and health care benefits to current and former employees. In addition, the Company's performance incentive expense increased \$1.3 million, which reflects the improved 2002 results when compared to 2001. Significant expense reductions were realized in rent, advertising and professional services. In addition to the benefit and performance incentive expense increases mentioned previously, increases were also realized in insurance expense and maintenance expense. In spite of actions taken to slow the growth of benefit and insurance expenses, the Company expects the trend toward higher costs to continue through 2003.

Interest expense for 2002 was \$9.8 million, a \$1.8 million, or 15%, decrease from 2001. Average daily short-term borrowings for 2002 were up 2% when compared to 2001 while the average short-term interest rate decreased from 5.1% for 2001 to 3.2% for 2002. Long-term interest expense decreased slightly for the same period.

As a result of the above, pretax income of \$19.8 million for 2002 was 66% higher than the pretax income of \$11.9 million in 2001. Income tax expense of \$6.5 million was recorded in 2002 at an effective rate of 32.8%. In 2001, income tax expense of \$2.9 million was recorded at an effective rate of 24.2%. The significant change in the effective tax rates between 2001 and 2002 resulted primarily from a much higher benefit from our foreign sales corporation in 2001 relative to the pretax income.

As a result of the above, the 2002 net income of \$13.3 million was \$4.4 million better than the 2001 net income of \$8.9 million. Basic earnings per share increased \$0.61 from 2001 and diluted earnings per share increased \$0.58 from 2001.

COMPARISON OF 2001 WITH 2000

Sales and merchandising revenues for 2001 totaled \$984.6 million, an increase of \$23.5 million, or 2%, from 2000. Sales in the Agriculture segment were up \$11.6 million, or 2%. Grain sales were down \$13.5 million, or 3%, due to flat volumes and a 3% decrease in the average price per bushel sold. Fertilizer sales were up \$25.1 million, or 17%, due to a 2% increase in volume and a 14% increase in average price per ton sold. Merchandising revenues in the Agriculture segment were up \$2.8 million, or 6%, due primarily to increases in drying and mixing income, space income (before interest charges) in the grain division and licensing revenue from the Crop Revenue Profiler(R) software. Space income includes storage fees earned on grain held for our customers and appreciation in the value of grain owned. Grain bushels on hand at December 31, 2001 were 65.4 million, slightly more inventory than at December 31, 2000.

The Processing segment had a sales increase of \$5.4 million, or 5%. The majority of this increase was attributable to increased price per ton sold in the lawn fertilizer division and a full twelve months of sales in 2001 of the U.S. ProTurf(R) product line, which was acquired from The Scotts Company on May 31, 2000. Volume decreased for the period in the consumer and industrial lawn fertilizer businesses (sold into the retail distribution channel) due to softness in the economy coupled with cold weather in much of the spring application season. The much smaller corncob-based businesses experienced a 16% increase in the average price per ton sold, partially offset by an 11% reduction in volume.

The Rail segment had a sales increase of \$12.1 million, or 64%. Railcar sales transactions completed during 2001 were up \$11.5 million, and lease fleet revenue was up \$1.0 million, or 8%. The lease fleet revenue growth was due to an increased number of railcars and locomotives managed and in service as

compared to 2000. Railcars managed at December 31, 2001 numbered 5,432, an increase of approximately 13% over railcars managed at December 31, 2000. The segment also added 21 locomotives to its fleet.

The Retail segment experienced decreased sales of \$5.9 million, or 3%, in 2001 when compared to 2000. More than half of this decrease relates to an extra (or 53rd) week in the 2000 fiscal year. In addition, weather during the months of January and December in 2001 was mild and demand for our cold weather items was very limited. This is in contrast to the same months in 2000 where weather drove significant sales of cold weather items.

The absence of revenues in the Other segment for 2001 was due to the sale of the Company's interest in The Andersons-Tireman Auto Centers (Tireman), an automotive repair business, in 2000.

Gross profit for 2001 totaled \$159.3 million, an increase of \$2.4 million, or 2%, from 2000. The Agriculture segment had a gross profit increase of \$8.5 million, or 11%, resulting from a 28% increase in margin on grain bushels sold, a 14% increase in gross profit on fertilizer tons sold and the 6% increase in merchandising revenues discussed previously. As always, this segment's results are highly dependent on weather conditions during the spring planting season through fall harvest in the eastern corn belt.

Gross profit for the Processing segment decreased \$1.8 million, or 8%, from the prior year. This decrease resulted from a 6% decrease in gross profit per lawn fertilizer ton sold and a 6% decrease in lawn fertilizer volume. The decrease in gross profit per ton was primarily caused by high raw material costs coupled with a change in product mix in the 2001 spring season, as customers opted for lower margin products. Gross profit in the corncob-based businesses was up \$0.3 million, or 12%.

Gross profit in the Rail segment decreased \$1.0 million, or 12%, from the prior year. While gross profit from car sales, railcar repairs, the fabrication shop and lease transactions was up, the segment took a \$1.5 million charge to write down the book value of certain impaired railcars. The increased sales activity in the latter portion of the year and some indications of future long-term deals are positive indications that the industry is improving; however, the recovery has been slow. Customer preference and market rates are still more focused on short-term lease opportunities rather than long-term leases or outright sales.

Gross profit in the Retail segment decreased by \$2.0 million, or 4%, from 2000. Half of this decrease was related to the extra week in 2000 mentioned previously. The remainder was due to the decrease in sales discussed above. New competition is expected in the Toledo market in 2002.

Gross profit in the Other segment declined by \$1.5 million in 2001 over 2000 due to the Company's sale of its interest in Tireman in March 2000.

The Company recorded a gain of \$0.3 million in 2001 related to an insurance recovery for a damaged grain tank at the Albion, Michigan facility. A tank collapse at its Webberville, Michigan wholesale fertilizer facility resulted in a 2000 gain of \$2.1 million from an insurance settlement for the replacement of the fixed assets. In addition, the Company recognized a gain of \$1.0 million on the sale of its 52.5% interest in Tireman.

Operating, administrative and general expenses for 2001 totaled \$139.7 million, a \$1.8 million, or 1%, increase from 2000. The increase primarily reflects increased labor and benefits expenses including \$1.3

million in severance expense. Full-time employees decreased 4% from the prior year, with reductions in all segments and at the corporate level.

Interest expense for 2001 was \$11.6 million, a \$0.3 million, or 2%, decrease from 2000. Average daily short-term borrowings increased 1% from 2000 while the average short-term interest rate decreased from 6.95% in 2000 to 5.10% in 2001. However, the Company has increased its long-term debt (including current maturities) 14% from December 31, 2000 to December 31, 2001 and has seen a similar increase in its long-term interest expense.

Income before income taxes of \$11.9 million decreased \$2.5 million, or 17%, from the 2000 pretax income of \$14.4 million. Income tax expense was \$2.9 million, a \$1.4 million, or 33%, decrease from 2000. The effective tax rate decreased significantly from the 2000 rate of 29.8% to 24.2% in 2001. This significant decrease resulted primarily from an increased benefit from the Company's foreign sales corporation.

The Company recognized an after-tax charge of \$0.2 million to record the cumulative effect of adopting the new financial accounting standard on derivatives. As a result of the above, net income for 2001 decreased \$1.2 million, or 12%, from the \$10.1 million in 2000 to \$8.9 million in 2001. Basic earnings per share decreased \$0.12 from 2000 and diluted earnings per share decreased \$0.13 from 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operations (before changes in operating assets and liabilities) provided cash of \$29.9 million in 2002, an increase of \$6.0 million from 2001. Net working capital at December 31, 2002 was \$80.8 million, an increase of \$5.6 million from December 31, 2001.

The Company has significant short-term lines of credit available to finance working capital, primarily inventories and accounts receivable. Effective on November 1, 2002, the Company entered into a borrowing arrangement with a syndicate of banks which provides the Company with \$150 million in short-term lines of credit and an additional \$50 million in a three-year line of credit. Prior to the syndication agreement, the Company managed several separate short-term lines of credit. The Company had \$70.0 million outstanding on its short-term line of credit at December 31, 2002. Peak short-term borrowing during 2002 was \$139.2 million on February 25, 2002. In most years, the Company's highest borrowing occurs in the spring due to seasonal inventory requirements in the fertilizer and retail businesses, credit sales of fertilizer and a customary reduction in grain payables due to the cash needs and market strategies of grain customers.

The Company utilizes interest rate contracts to manage a portion of its interest rate risk on both its short and long-term debt and lease commitments. At December 31, 2002, the fair value of these derivative financial instruments recorded in the balance sheet (primarily interest rate swaps and interest rate caps) was a net liability of \$0.1 million.

Quarterly cash dividends of \$0.065 per common share were paid in 2002 and 2001. A cash dividend of \$0.07 per common share was declared on January 2, 2003 and was paid on January 22, 2003. The Company made income tax payments of \$2.5 million in 2002. During 2002, the Company issued approximately 132 thousand shares to employees and directors under its share compensation plans.

Total capital spending for 2002 on property, plant and equipment was \$9.8 million and included \$1.8 million for investments in facilities and expansion in the Agriculture Group, \$1.6 million for information systems and \$0.7 million for retail store improvements and additions. The remaining amount of \$5.7 million was spent on numerous assets and projects with no single project costing more than \$0.3 million. The Company also spent \$8.2 million in 2002 for the purchase of railcars and capitalized modifications on railcars that may then be sold, financed off-balance sheet or owned by the Company for lease to customers. The Company sold or financed \$16.0 million of railcars during 2002. Finally, the Company completed its minority investment in a new limited liability corporation specializing in grain trading with Lansing Grain Company in January, 2003.

Certain of the Company's borrowings include provisions that impose minimum levels of working capital and equity, impose limitations on additional debt and require that grain inventory positions be substantially hedged. In addition, certain of the Company's long-term borrowings are secured by first mortgages on various facilities or are collateralized by railcar assets. The Company was in compliance with all of these provisions at December 31, 2002.

The marketability of the Company's grain inventories and the availability of short-term lines of credit enhance the Company's liquidity. In the opinion of management, the Company's liquidity is adequate to meet short-term and long-term needs.

CONTRACTUAL OBLIGATIONS

Future payments due under contractual obligations at December 31, 2002 are as follows:

CONTRACTUAL OBLIGATIONS (in thousands)	Payments Due by Period				
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Long-term debt	\$ 9,454	\$14,915	\$16,600	\$48,928	\$ 89,897
Capital lease obligations	327	696	3,127	--	4,150
Operating leases	10,367	14,606	6,869	9,992	41,834
Other	200	400	400	--	1,000
Total contractual cash obligations	\$20,348	\$30,617	\$26,996	\$58,920	\$136,881

Included in long-term debt are acquisition liabilities that include minimum royalty payments. There are additional contingent sales-based royalty payments that have not triggered to date and which are not expected to be material to the Company if they trigger in the future. The royalty period ends May 2005.

The Company had standby letters of credit outstanding of \$19.2 million at December 31, 2002, of which \$8.5 million are credit enhancements for industrial revenue bonds included in the contractual obligations table above.

The Company's grain inventories include the value of forward purchase contracts to buy and, to a lesser extent, forward sale contracts to sell grain. These contracts are marked to the market price and require performance in future periods. The terms of these contracts are consistent with industry standards. These contractual obligations are not included in the preceding table.

Approximately 72% of the operating lease commitments above relate to 1,934 railcars that the Company leases from financial intermediaries. See the following section on Off-Balance Sheet Transactions.

The Company is subject to various loan covenants as highlighted previously. Although the Company is and has been in compliance with its covenants, noncompliance could result in default and acceleration of long-term debt payments. The Company does not anticipate noncompliance with its covenants.

OFF-BALANCE SHEET TRANSACTIONS

The Company's Rail Group utilizes leasing arrangements that provide off-balance sheet financing for its activities. The Company leases railcars from financial intermediaries under operating leases through sale-leaseback transactions, the majority of which involve operating leasebacks. Railcars owned by the Company, or leased by the Company from a financial intermediary, are generally leased to a customer under an operating lease. The Company also arranges non-recourse lease transactions under which it sells railcars or locomotives to a financial intermediary, and assigns the related operating lease to the financial intermediary on a non-recourse basis. In such arrangements, the Company generally provides ongoing railcar maintenance and management services for the financial intermediary, and receives a fee for such services. On most of the railcars and locomotives, the Company holds an option to purchase these assets at the end of the lease.

The following table describes the railcar and locomotive positions at December 31, 2002.

METHOD OF CONTROL	FINANCIAL STATEMENT	NUMBER

Owned-railcars available for sale	On balance sheet - current	144
Owned-railcar assets leased to others	On balance sheet - non-current	2,124
Railcars leased from financial institutions	Off balance sheet	1,934
Railcars - non-recourse arrangements	Off balance sheet	1,497

TOTAL RAILCARS		5,699
		=====
Locomotives - non-recourse arrangements	Off balance sheet	51
		=====

The Company has future lease payment commitments aggregating \$30.1 million for the railcars leased by the Company from financial intermediaries under various operating leases. Remaining lease terms vary with none exceeding 10 years. The majority of these railcars have been leased to customers at December 31, 2002 over similar terms. The segment manages risk by matching lease commitments with funding (where possible) and ongoing evaluation of lessee credit worthiness. In addition, the Company prefers non-recourse lease transactions, whenever possible, in order to minimize its credit risk.

CRITICAL ACCOUNTING POLICIES

The Company marks all grain inventory, forward purchase and sale contracts for grain, and exchange-traded futures and options contracts to the market. Changes in market value are recorded as merchandising revenues in the statement of operations. Because the Company marks inventories and sales commitments to the market, gross profit on a grain sale transaction is recognized when a contract for sale of the grain is executed. The related revenue is recognized upon shipment of the grain, at which time title transfers and customer acceptance occurs.

The Company has a marketing agreement that covers certain of its grain facilities. This five-year agreement, which expires in May 2003, includes a base-level income guarantee and equal sharing of income over that base level. There is also a look-back provision that places at risk any income in excess of the base level for the term of the agreement upon the occurrence of certain circumstances. The Company has recognized in income the base level guarantee amount for each year of the agreement and spreads its share of the amount in excess of the base level on a pro rata basis over all future periods covered by the agreement. At December 31, 2002, the Company had completed 55 months under the agreement and had current deferred income of approximately \$1.5 million. If the facilities' performance drops below the base-level income guarantee for the remaining 5 months of the contract, the Company is at risk for not realizing a portion of this deferred income. If performance is at or greater than the base-level guarantee, the Company will recognize over the next 5 months the remaining income it has deferred.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in the Company's market risk-sensitive instruments and positions is the potential loss arising from adverse changes in commodity prices and interest rates as discussed below.

Commodity Prices

The availability and price of agricultural commodities are subject to wide fluctuations due to unpredictable factors such as weather, plantings, government (domestic and foreign) farm programs and policies, changes in global demand created by population growth and higher standards of living, and global production of similar and competitive crops. To reduce price risk caused by market fluctuations, the Company follows a policy of hedging its inventories and related purchase and sale contracts. The instruments used are exchange-traded futures and options contracts that function as hedges. The market value of exchange-traded futures and options used for hedging has a high, but not perfect correlation, to the underlying market value of grain inventories and related purchase and sale contracts. The less correlated portion of inventory and purchase and sale contract market value (known as basis) is much less volatile than the overall market value of exchange-traded futures and tends to follow historical patterns. The Company manages this less volatile risk using its daily grain position report to constantly monitor its position relative to the price changes in the market. The Company's accounting policy for its futures and options hedges, as well as the underlying inventory positions and purchase and sale contracts, is to mark them to the market price daily and include gains and losses in the statement of income in sales and merchandising revenues.

A sensitivity analysis has been prepared to estimate the Company's exposure to market risk of its commodity position (exclusive of basis risk). The Company's daily net commodity position consists of inventories, related purchase and sale contracts and exchange-traded contracts. The fair value of the

position is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures market prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in such prices. The result of this analysis, which may differ from actual results, is as follows:

(in thousands)	DECEMBER 31	
	2002	2001
Net (short) long position	(\$2,302)	\$3,659
Market risk	230	366

Interest Rates

The fair value of the Company's long-term debt is estimated using quoted market prices or discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. In addition, the Company has derivative interest rate contracts recorded in its balance sheet at their fair value. The fair value of these contracts is estimated based on quoted market termination values. Market risk, which is estimated as the potential increase in fair value resulting from a hypothetical one-half percent decrease in interest rates, is summarized below:

(in thousands)	DECEMBER 31	
	2002	2001
Fair value of long-term debt and interest rate contracts	\$96,358	\$104,102
Fair value in excess of carrying value	2,236	2,344
Market risk	1,893	2,253

FORWARD LOOKING STATEMENTS

The preceding Management's Discussion and Analysis contains various "forward-looking statements" which reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties, including but not limited to those identified below, which could cause actual results to differ materially from historical results or those anticipated. The words "believe," "expect," "anticipate," "will" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following factors could cause actual results to differ materially from historical results or those anticipated: weather; supply and demand of commodities including grains, fertilizer and other basic raw materials; market prices for grains and the potential for increased margin requirements; environmental and governmental policies; competition; economic conditions; risks associated with acquisitions; interest rates; and income taxes.

The Andersons, Inc.

Notes to Consolidated Financial Statements

1. BASIS OF FINANCIAL PRESENTATION / ACQUISITIONS

These consolidated financial statements include the accounts of The Andersons, Inc. and its wholly-owned and majority-owned subsidiaries (the "Company"). All significant intercompany accounts and transactions are eliminated in consolidation.

On May 31, 2000, the Company acquired inventory and intangible assets of the U.S. ProTurf(R) division of The Scotts Company. The acquisition was accounted for as a purchase, and the results of operations have been included in the consolidated statements of income from June 1, 2000. This transaction was completed through a combination of cash paid and liabilities assumed with a total purchase price of approximately \$19.8 million. Of this amount, \$15.0 million was allocated to inventory and the remainder to goodwill and other intangible assets. The purchase agreement provides for additional payments to the seller through 2005 if the sales volume of the acquired business exceeds certain targets. These payments, if any, will be accounted for as additional purchase price; no such payments have been made since the acquisition to date. If the acquisition had taken place on January 1, 2000, pro forma revenues (unaudited) would have been \$993.0 million for the year ended December 31, 2000. The business has been integrated into the Company's Processing segment and is expected to result in significantly different cost and expense structures. Therefore, pro forma operating income, net income and earnings per common share are not presented as they are not meaningful.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and all highly liquid debt instruments purchased with an initial maturity of three months or less. The carrying values of these assets approximate their fair values.

INVENTORIES AND INVENTORY COMMITMENTS

Grain inventories include owned bushels of grain, the value of forward contracts to buy and sell grain, and exchange traded futures and option contracts used to hedge the value of both owned grain and forward contracts. Each of these grain inventory components is marked to the market price. The forward contracts require performance in future periods. Contracts to purchase grain from producers generally relate to the current or future crop years for delivery periods quoted by regulated commodity exchanges.

Contracts for the sale of grain to processors or other consumers generally do not extend beyond one year. The terms of contracts for the purchase and sale of grain are consistent with industry standards.

All other inventories are stated at the lower of cost or market. Cost is determined by the average cost method.

DERIVATIVES - COMMODITY AND INTEREST RATE CONTRACTS

For the purpose of hedging its market price risk exposure on grain owned and related forward grain purchase and sale contracts, the Company holds regulated commodity futures and options contracts for corn, soybeans, wheat and oats. The Company accounts for all commodity contracts using a daily mark-to-market method, the same method it uses to value grain inventory and forward purchase and sale contracts. Company policy limits the Company's unhedged grain position. While the Company considers all of its commodity contracts to be effective economic hedges, the Company does not designate or account for its commodity contracts as hedges. Realized and unrealized gains and losses in the value of commodity contracts (whether due to changes in commodity prices or due to sale, maturity or extinguishment of the commodity contract), grain inventories and related forward grain contracts are included in sales and merchandising revenues in the statements of income.

The Company also periodically enters into interest rate contracts to manage interest rate risk on borrowing or financing activities. The Company accounts for its long-term interest rate swap, Treasury rate lock and interest rate corridor contracts as cash flow hedges; accordingly, changes in the fair value of the instruments are recognized in other comprehensive income. While the Company considers all of its derivative positions to be effective economic hedges of specified risks, the Company does not designate or account for other open interest rate contracts as hedges. Changes in the market value of all other interest rate contracts are recognized currently in income. Upon termination of a derivative instrument or a change in the hedged item, any remaining fair value recorded on the balance sheet is immediately recorded as interest expense. The deferred derivative gains and losses on closed Treasury rate locks and the changes in fair value of the interest rate corridors are reclassified into income over the term of the underlying hedged items, which are either long-term debt or lease contracts.

At January 1, 2001, the Company recorded in the statement of income a transition adjustment of \$305 thousand (\$185 thousand after tax) as a result of adopting Financial Accounting Standards Board (FASB) Statement No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities." This adjustment was made to write down open interest rate contracts to their fair values. The Company also reclassified deferred net losses of \$1.2 million to other comprehensive income. This amount represented deferred net losses on the settlement of Treasury rate locks entered into for the purpose of hedging the interest rate component of firm commitment lease transactions. The deferred losses will be recognized as a component of gross profit over the term of the underlying leases.

During 2002, the Company reclassified \$0.2 million of other comprehensive income into rail lease cost of sales under the reclassification policy noted above for amortization of the closed Treasury rate locks. Less than \$0.1 million was reclassified to interest expense as a result of amortization of other comprehensive income from the change in fair value of the interest rate corridors.

Prior to the adoption of Statement No. 133, the Company recognized income or expense associated with interest rate swap contracts on the accrual basis over the term of the agreement as interest expense. The cost of short-term interest rate caps was expensed at the date of purchase, and the cost of long-term

interest rate caps was expensed over the term of the underlying obligation. Gains or losses on settlement of Treasury rate locks hedging the interest component of firm commitment lease transactions were recognized over the term of the ensuing lease transaction. The fair value of interest rate contracts was not recognized in the balance sheet prior to 2001.

RAILCARS AVAILABLE FOR SALE

The Company's Rail segment purchases, leases, markets and manages railcars for third parties and for internal use. Railcars to which the Company holds title are shown on the balance sheet in one of two categories - railcars available for sale or railcar assets leased to others. Railcars that have been acquired but have not been placed in service are classified as current assets and are stated at the lower of cost or market. Railcars leased to others, both on short- and long-term leases, are classified as long-term assets and are depreciated over their estimated useful lives. Details about the Rail segment's leasing activities are presented in the Leases and Related Commitments note.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost. Repairs and maintenance are charged to expense as incurred, while betterments that extend useful lives are capitalized. Depreciation is provided over the estimated economic useful lives of the individual assets, principally by the straight-line method. Estimated useful lives are generally as follows: land improvements and leasehold improvements - 10 to 16 years; buildings and storage facilities - 20 to 30 years; machinery and equipment - 3 to 20 years; and software - 3 to 10 years. The cost of assets retired or otherwise disposed of and the accumulated depreciation thereon are removed from the accounts, with any gain or loss realized upon sale or disposal credited or charged to operations.

INTANGIBLE ASSETS AND GOODWILL

Intangible assets, primarily purchased intangible assets resulting from business acquisitions, are amortized over the estimated period of benefit (generally 5 years) by the straight-line method. Intangible assets of \$3.4 million and \$4.2 million at December 31, 2002 and 2001, respectively, are included in Other assets and notes receivable in the balance sheet. Accumulated amortization at December 31, 2002 and 2001 was \$2.6 million and \$1.8 million, respectively.

Prior to 2002, goodwill was amortized on a straight-line basis over the estimated period of benefit, ranging from 5 to 12 years.

The Company adopted the provisions of FASB Statement No. 142, "Goodwill and Other Intangible Assets," (Statement No. 142) on January 1, 2002. In connection with the adoption of this statement, the Company ceased amortization of goodwill, and evaluated its remaining goodwill, with net book value of \$1.3 million, for impairment. The adoption of Statement 142 eliminated annual goodwill amortization of \$0.2 million.

With the adoption of Statement No. 142, the Company annually evaluates recorded goodwill for impairment utilizing a fair value methodology. Recorded goodwill relates primarily to the Company's Processing Group. The Company's goodwill was not impaired upon adoption of Statement No. 142 or at December 31, 2002.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of the assets to the future net cash flows the Company expects to generate with the asset. If such assets are considered to be impaired, the Company recognizes impairment expense for the amount by which the carrying amount of the assets exceeds the fair value of the assets. The Company recognized impairment losses on long-term railcars of \$0.3 million in both 2002 and 2001 in cost of sales. The Company also recognized a \$0.2 million impairment on an agricultural facility in 2002, which was included in operating, administrative and general expenses. In addition, in 2001, the Company recorded a \$1.2 million lower of cost or market adjustment for railcars classified as available for sale.

ACCOUNTS PAYABLE FOR GRAIN

Accounts payable for grain includes the liability for grain purchases on which price has not been established (delayed price). This amount has been computed on the basis of market prices at the balance sheet date, adjusted for the applicable premium or discount.

DEFERRED INCOME

Certain of the Company's agriculture facilities are subject to a five-year marketing agreement with a third party that provides for a base-level income guarantee and equal sharing of income earned over the base level. The marketing agreement includes a look-back provision that places at risk any income in excess of the base level for the term of the agreement. The Company recognizes the base-level income guarantee as revenue on a pro rata basis over the remaining life of the agreement. The Company measures its share of the cumulative income over the base-level income guarantee at the end of each contract year and recognizes such income on a pro rata basis over the life of the agreement. The marketing agreement will terminate in May 2003. Deferred income at December 31, 2002 and 2001 was \$1.5 million and \$5.4 million, respectively.

STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Company has adopted the disclosure only provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation." Accordingly, the Company provides pro forma disclosures assuming that the Company had accounted for its stock-based compensation programs using the fair value method promulgated by Statement No. 123.

(in thousands, except for per share data)

	YEAR ENDED DECEMBER 31		
	2002	2001	2000
Net income, as reported	\$13,319	\$ 8,857	\$10,078
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(316)	(318)	(363)
Pro forma net income	\$13,003	\$ 8,539	\$ 9,715
Earnings per share:			
Basic - as reported	\$1.83	\$1.22	\$1.34
Basic - pro forma	\$1.79	\$1.17	\$1.29
Diluted - as reported	\$1.79	\$1.21	\$1.34
Diluted - pro forma	\$1.75	\$1.17	\$1.29

REVENUE RECOGNITION

Sales of products are recognized at the time of shipment. Under the Company's mark-to-market method for its grain operations, gross profit on grain sales is recognized when sales are contracted. Revenues from other merchandising activities are recognized as open grain contracts are marked-to-market or as services are provided. Sales returns and allowances are provided for at the time sales are recorded. Shipping and handling costs are included in cost of sales.

Sales of railcars, including railcars sold in non-recourse lease transactions, are recorded as revenue on the date of sale. Sales for these transactions totaled \$0.1 million, \$15.3 million and \$3.8 million in 2002, 2001 and 2000, respectively.

LEASE ACCOUNTING

The Company accounts for its leases under FASB Statement No. 13, as amended, and related pronouncements.

The Company's Rail segment leases and manages railcars for third parties, and leases railcars for internal use. The Company is an operating lessor of railcars that are owned by the Company, or leased by the Company from financial intermediaries. The Company records lease income for its activities as an operating lessor as earned, which is generally spread evenly over the lease term. The Company expenses operating lease payments made to financial intermediaries on a straight-line basis over the lease term. The Company periodically enters into leases with Rail Group customers that are classified as direct financing capital leases. Although lease terms are not significantly different from other operating leases

that the Company maintains with its railcar customers, they qualify as capital leases. For these leases, the net minimum lease payments, net of unearned income is included in prepaid expenses and other current assets for the amount to be received within one year and the remainder in other assets.

The Company also arranges non-recourse lease transactions under which it sells railcars or locomotives to financial intermediaries and assigns the related operating lease on a non-recourse basis. The Company generally provides ongoing railcar maintenance and management services for the financial intermediaries, and receives a fee for such services when earned. On the date of sale, the Company recognizes the proceeds from sales of railcars in non-recourse lease transactions as revenue. Management and service fees are recognized as revenue, which is generally spread evenly over the lease term.

INCOME TAXES

Income tax expense for each period includes taxes currently payable plus the change in deferred income tax assets and liabilities. Deferred income taxes are provided for temporary differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws governing periods in which the differences are expected to reverse. The Company evaluates the realizability of deferred tax assets and provides a valuation allowance for amounts that management does not believe are more likely than not to be recoverable, as applicable.

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense of \$2.2 million in 2002 and \$2.8 million in each of 2001 and 2000 is included in operating, administrative and general expenses.

EARNINGS PER SHARE

Basic earnings per share is equal to net income divided by weighted average shares outstanding. Diluted earnings per share is equal to basic earnings per share plus the incremental per share effect of dilutive options and restricted shares.

(in thousands, except for per share data)	YEAR ENDED DECEMBER 31		
	2002	2001	2000
Income before cumulative effect of accounting change	\$13,319	\$9,042	\$10,078
Cumulative effect of change in accounting principle, net of income tax benefit	--	(185)	--
Net income	\$13,319	\$8,857	\$10,078
Basic earnings per share:			
Income before cumulative effect of accounting change	\$1.83	\$1.24	\$1.34
Cumulative effect of change in accounting principle, net of income tax benefit	--	(0.02)	--
Net income	\$1.83	\$1.22	\$1.34
Diluted earnings per share:			
Income before cumulative effect of accounting change	\$1.79	\$1.24	\$1.34
Cumulative effect of change in accounting principle, net of income tax benefit	--	(0.03)	--
Net income	\$1.79	\$1.21	\$1.34
Weighted average shares outstanding - basic	7,283	7,281	7,507
Restricted shares and shares contingently issuable upon exercise of options	146	35	18
Weighted average shares outstanding - diluted	7,429	7,316	7,525

Diluted earnings per common share excludes the impact of 1 thousand, 260 thousand and 634 thousand employee stock options for 2002, 2001 and 2000, respectively, as such options were antidilutive.

NEW ACCOUNTING STANDARDS

The FASB has issued Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which is effective for the Company's 2002 fiscal year. This statement requires additional disclosures about the Company's stock-based compensation plans.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 clarifies disclosures that are required to be made for certain guarantees and establishes a requirement to record a liability at fair value for certain guarantees at the time of the guarantee's issuance. The disclosure requirements of FIN No. 45 have been applied in these financial statements. The requirement to record a liability applies to guarantees issued or modified after December 31, 2002. We

do not believe the adoption of this portion of the interpretation will have a material effect on our financial condition or results of operations.

The FASB also issued the following statements in 2002. These statements each require prospective application.

- - Statement No. 145, "Rescission of FASB Statements Nos. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" amends or corrects a variety of existing rules. The Company does not expect to be materially impacted by this statement.
- - Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," addresses the accounting and reporting of costs associated with exit or disposal activities. The Company does not expect to be materially impacted by this statement.
- - Statement No. 147, "Accounting Acquisitions of Certain Financial Institutions," amends previous guidance on this topic. The Company does not expect to be impacted by this statement.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 provides guidance on identification of a variable interest entity ("VIE") and on determination of whether the VIE should be consolidated in an enterprise's financial statements. In general, an enterprise deemed to be the primary beneficiary of a VIE is required to consolidate the VIE. FIN No. 46 is effective immediately for any new FIE established after January 31, 2003 and must be adopted for any pre-existing VIEs at the beginning of the Company's third quarter.

The Company's railcar leasing activities, as described above, include transactions with financial intermediaries that may constitute variable interest entities under the guidance of FIN No. 46. Management has not completed its evaluation of these arrangements to determine whether any of these arrangements involve a VIE or, if a VIE exists, whether the Company is the primary beneficiary of the VIE. Therefore, management has not determined the impact of FIN No. 46 on the Company's financial statements.

RECLASSIFICATIONS

Certain amounts in the 2001 and 2000 financial statements have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on net income or shareholders' equity as previously presented.

3. INVENTORIES

Major classes of inventories are as follows:

(in thousands)	DECEMBER 31	
	2002	2001
Grain	\$ 156,742	\$ 140,316
Agricultural fertilizer and supplies	25,699	24,240
Lawn and garden fertilizer and corncob products	42,947	43,440
Railcar repair parts	1,455	1,401
Retail merchandise	29,076	28,539
Other	356	355
	<u>\$ 256,275</u>	<u>\$ 238,291</u>

4. PROPERTY, PLANT AND EQUIPMENT AND RAILCAR ASSETS LEASED TO OTHERS

The components of property, plant and equipment and railcar assets leased to others are as follows:

(in thousands)	DECEMBER 31	
	2002	2001
Land	\$ 11,735	\$ 11,758
Land improvements and leasehold improvements	29,122	27,937
Buildings and storage facilities	95,892	94,309
Machinery and equipment	121,911	119,460
Software	4,771	3,714
Construction in progress	2,369	4,144
	<u>265,800</u>	<u>261,322</u>
Less accumulated depreciation and amortization	<u>172,861</u>	<u>166,321</u>
	<u>\$ 92,939</u>	<u>\$ 95,001</u>
Railcar assets leased to others	\$ 32,144	\$ 30,585
Less accumulated depreciation	<u>5,745</u>	<u>4,483</u>
	<u>\$ 26,399</u>	<u>\$ 26,102</u>

On December 31, 2001, the Company entered into a sale-leaseback transaction with a financial institution; the Company accounts for its leaseback as a capital lease. These assets have a cost of \$4.5 million and are included with other railcars above for both 2002 and 2001. Accumulated amortization for these assets was \$0.3 million at December 31, 2002.

5. NONOPERATING GAINS

During 2002, a conference facility owned by the Company was damaged by fire. This facility was insured for replacement value and the Company received insurance funds to repair the damaged assets.

The 2002 gain of \$0.3 million represents the insurance proceeds received in 2002 in excess of the net book value of the destroyed assets.

During 2000, a grain tank and related assets at the Company's Albion, Michigan facility were destroyed in a windstorm. This facility was insured for replacement value and the Company received insurance funds to replace the assets lost. The 2001 gain of \$0.3 million represents the insurance proceeds received in 2001 in excess of the net book value of the destroyed assets.

In March 2000, the Company sold its interest in The Andersons - Tireman Auto Centers, a joint venture in which it owned a 52.5% interest. The 2000 gain on sale of business of \$1.0 million represents proceeds received in excess of the Company's investment. This business was previously included in the Company's financial statements and reported in the Other segment in the Company's segment data.

During 2000, the Company completed the settlement of an insurance claim related to the 1999 collapse of a liquid fertilizer tank and adjoining assets at its Webberville, Michigan facility. The resultant gain of \$2.1 million represents the insurance proceeds in excess of the net book value of the destroyed assets.

6. SHORT-TERM BORROWING ARRANGEMENTS

During 2002, the Company entered into a borrowing arrangement with a syndicate of banks. The new arrangement provides the Company with \$150 million in short-term lines of credit and an additional \$50 million in a three-year line of credit. Short-term borrowings under this arrangement totaled \$70.0 million at December 31, 2002. The borrowing arrangement terminates on October 29, 2003 but allows for indefinite renewals at the Company's option and as long as certain covenants are met. Management expects to renew the arrangement prior to its termination date. Borrowings under the lines of credit bear interest at variable interest rates, which are based on LIBOR, the prime rate or the federal funds rate, plus a spread. The terms of the borrowing agreement provide for annual commitment fees. Prior to this syndication, the Company managed several separate lines of credit for unsecured short-term debt with banks. The following information relates to short-term borrowings:

(in thousands, except percentages)	2002	DECEMBER 31 2001	2000
Maximum amount borrowed	\$139,200	\$130,400	\$113,800
Average daily amount borrowed	92,534	91,014	89,798
Weighted average interest rate	3.24%	5.10%	6.95%

7. LONG-TERM DEBT AND INTEREST RATE CONTRACTS

Long-term debt consists of the following:

(in thousands, except percentages)	DECEMBER 31	
	2002	2001
Note payable, 6.50%, payable \$162 monthly, remainder due 2017	\$ 17,758	\$ --
Note payable, 6.95%, payable \$317 quarterly, remainder due 2008	16,147	17,415
Note payable, 7.00%, payable \$316 quarterly beginning in 2004, due 2016	10,681	10,681
Note payable, variable rate (2.76% at December 31, 2002), payable \$150 first and second quarters and \$99 third and fourth quarters of 2003, with decreasing quarterly payments thereafter, due 2005	6,787	7,750
Note payable under revolving line of credit	--	15,000
Notes payable, variable rate, due 2002	--	1,657
Industrial development revenue bonds:		
Variable rate (1.68% at December 31, 2002), due 2019	4,650	4,650
Variable rate	--	1,944
Variable rate (1.70% at December 31, 2002), due 2025	3,100	3,100
Liabilities related to acquisition, discounted at 8.25%, due in variable quarterly installments through 2005	2,651	3,188
Debenture bonds, 5.50% to 8.50%, due 2003 through 2012	27,628	31,250
Obligations under capital lease	4,150	4,473
Other notes payable and bonds	495	582
	94,047	101,690
Less current maturities	9,775	10,374
	\$84,272	\$91,316

In connection with its short-term borrowing agreement with a syndicate of banks, the Company obtained an unsecured \$50.0 million long-term line of credit. Borrowings under this line of credit will bear interest based on LIBOR, plus a spread. The long-term line of credit expires on October 30, 2005, but may be renewed by the Company for an additional three years as long as covenants are met. After considering its standby letters of credit totaling \$19.2 million, the Company had available borrowing capacity under this facility of \$30.8 million.

The notes payable due 2008, 2016 and 2017 and the industrial development revenue bonds are collateralized by first mortgages on certain facilities and related equipment with a book value of \$29.2 million. The note payable due 2005 is collateralized by railcars with a book value of \$6.8 million.

The Company's short-term and long-term borrowing agreements include both financial and non-financial covenants that require the Company, among other things, to:

- - maintain minimum working capital of \$45.0 million and net equity (as defined) of \$65.0 million;
- - limit the addition of new long-term debt;
- - limit its unhedged grain position to 2.0 million bushels; and
- - restrict the amount of dividends paid.

The Company was in compliance with all covenants at December 31, 2002 and 2001.

The aggregate annual maturities of long-term debt, including sinking fund requirements and capital lease obligations, are as follows: 2003--\$9.8 million; 2004--\$5.5 million; 2005--\$10.1 million; 2006--\$11.6 million; 2007--\$8.0 million; and \$49.0 million thereafter.

Interest paid (including interest on short-term lines of credit) amounted to \$9.7 million, \$10.1 million and \$11.5 million in 2002, 2001 and 2000, respectively.

The Company has entered into derivative interest rate contracts to manage interest rate risk on short-term borrowings. The contracts convert variable interest rates to short-term fixed rates, consistent with projected borrowing needs. At December 31, 2002, the Company has two short-term interest rate cap agreements with a total notional amount of \$20.0 million to hedge short-term borrowing costs. These agreements provide interest rate caps of between 2.75% and 3.00% and expire on April 1, 2003. Although these instruments are intended to hedge interest rate risk on short-term borrowings, the Company has elected not to account for them as hedges. Changes in their fair value are included in interest expense in the statements of income.

The Company has also entered into various derivative financial instruments to hedge the interest rate component of long-term debt and lease obligations. The following table displays the contracts open at December 31, 2002.

INTEREST RATE HEDGING INSTRUMENT	YEAR ENTERED	YEAR OF MATURITY	INITIAL NOTIONAL AMOUNT (IN MILLIONS)	HEDGED ITEM	INTEREST RATE
Cap	1999	2003	\$19.4	Interest rate component of an operating lease - not accounted for as a hedge	6.50%
Cap	2000	2005	\$12.5	Interest rate component of a long-term note payable - not accounted for as a hedge	7.66%
Swap	2001	2004	\$14.6	Convert floating interest rate component of an operating lease to a fixed rate	3.27%
Corridor	2002	2006	\$4.8	Interest rate component of a railcar debt financing	4.25% - 7.00%
Corridor	2002	2007	\$4.3	Interest rate component of a railcar sale-leaseback transaction	4.25% - 7.00%

The initial notional amounts on the above instruments amortize monthly in the same manner as the underlying hedged item. Changes in the fair value of the caps are included in interest expense in the statements of income, as they are not accounted for as cash flow hedges. The swap and the interest rate corridors are designated as cash flow hedges with changes in their fair values included as a component of other comprehensive income or loss. Also included in accumulated other comprehensive income are closed treasury rate locks entered into to hedge the interest rate component of railcar lease transactions prior to their closing. The reclassification of these amounts from other comprehensive income into interest or cost of railcar sales occurs over the term of the hedged debt or lease, as applicable.

The fair values of all derivative instruments are included in other assets and notes receivable or other long-term liabilities. The net fair value amount for 2002 and 2001 was less than \$0.1 million. The mark-

to-market effect of long-term and short-term interest rate contracts on interest expense was \$0.1 million interest credit and \$0.2 million additional interest expense for 2002 and 2001, respectively. If there are no additional changes in fair value, the Company expects to reclassify \$0.3 million from other comprehensive income into interest expense or cost of railcar sales in 2003.

8. INCOME TAXES

Income tax provision (benefit) consists of the following:

(in thousands)	YEAR ENDED DECEMBER 31		
	2002	2001	2000
Current:			
Federal	\$3,606	\$3,311	\$2,219
State and local	200	117	(175)
	3,806	3,428	2,044
Deferred:			
Federal	2,560	(496)	1,935
State and local	149	(43)	307
	2,709	(539)	2,242
Total:			
Federal	6,166	2,815	4,154
State and local	349	74	132
	\$6,515	\$2,889	\$4,286
	=====	=====	=====

A reconciliation from the statutory U.S. federal tax rate to the effective tax rate follows:

	YEAR ENDED DECEMBER 31		
	2002	2001	2000
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
Increase (decrease) in rate resulting from:			
Effect of commissions paid to foreign sales corporation or excluded extraterritorial income	(3.2)	(11.3)	(5.8)
State and local income taxes, net of related federal taxes	1.1	0.4	0.6
Other, net	(0.1)	0.1	--
Effective tax rate	32.8%	24.2%	29.8%
	=====	=====	=====

Income taxes paid in 2002, 2001 and 2000 were \$2.5 million, \$4.3 million, and \$3.3 million, respectively.

Significant components of the Company's deferred tax liabilities and assets are as follows:

(in thousands)	DECEMBER 31	
	2002	2001

Deferred tax liabilities:		
Property, plant and equipment and railcar assets leased to others	\$(14,084)	\$(12,898)
Prepaid employee benefits	(3,857)	(2,949)
Other	(344)	(202)
	-----	-----
	(18,285)	(16,049)

Deferred tax assets:		
Employee benefits	6,469	5,384
Deferred income	2,402	1,450
Accounts and notes receivable	1,246	1,289
Inventory	947	2,456
Investments	13	353
Other	348	433
	-----	-----
	11,425	11,365

Net deferred tax liability	\$ (6,860)	\$ (4,684)
	=====	=====

In 2002 and 2001, the Company recorded deferred tax assets of \$0.5 million and \$0.1 million, respectively, related to the accounting for derivatives under Statement 133. The 2002 amount is included in other comprehensive income in the statement of shareholders' equity. The 2001 amount is included in the statement of income as a cumulative effect of change in accounting principle.

9. STOCK COMPENSATION PLANS

The Company's Amended and Restated Long-Term Performance Compensation Plan dated December 14, 2001 (the LT Plan) authorizes the Board of Directors to grant options and share awards to employees and outside directors for up to 2.1 million of the Company's common shares. Options granted under the LT Plan have a maximum term of 10 years. Options granted to outside directors have a fixed term of five years and vest after one year. Options granted to management personnel under the LT Plan have a five-year term and vest 40% immediately, an additional 30% after one year and the remaining 30% after two years. Options granted under the LT Plan are structured as fixed grants with exercise price equal to the market value of the underlying stock on the date of the grant; accordingly, no compensation expense is recognized for these grants.

The LT Plan also permits awards of restricted stock. The Company issued 15 thousand, 21 thousand and 20 thousand restricted shares during 2002, 2001 and 2000, respectively; 23 thousand restricted shares remain outstanding at December 31, 2002. These shares carry voting and dividend rights; however, sale of the shares is restricted prior to vesting. Restricted shares vest 50% after one year and the remaining 50% after two years. Restricted shares issued under the LT Plan are recorded at their fair value on the grant date with a corresponding charge to shareholders' equity representing the unearned portion of the award. The unearned portion is amortized as compensation expense on a straight-line basis over the related vesting period. Compensation expense related to restricted stock issued under the LT Plan amounted to \$0.2 million in each of 2002, 2001 and 2000.

Certain Company executives and outside directors have elected to receive a portion of their cash compensation in stock options and/or restricted stock issued under the LT Plan. These options and restricted stock vest immediately. The options have a ten-year term. There were 3 thousand, 6 thousand and 4 thousand restricted shares issued in lieu of cash compensation in 2002, 2001 and 2000, respectively and 10 thousand options issued in 2002.

The Company's Employee Share Purchase Plan (the ESP Plan) allows employees to purchase common shares through payroll withholdings. The Company has reserved 300 thousand common shares for issuance to and purchase by employees under this plan. The ESP Plan also contains an option component. The purchase price per share under the ESP Plan is the lower of the market price at the beginning or end of the year. Employees purchased 25 thousand, 33 thousand and 33 thousand shares under the ESP Plan in 2002, 2001 and 2000, respectively. The Company records a liability for withholdings not yet applied towards the purchase of common stock. No compensation expense is recognized for stock purchases or options under the ESP Plan.

Pro forma information regarding net income and earnings per share required by Statement No. 123, "Accounting for Stock-Based Compensation," is included in note 2 and is determined as if the Company accounted for its employee stock options under the fair value method. The fair value of each option grant is estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions by year.

	2002	2001	2000

LONG TERM PERFORMANCE COMPENSATION PLAN			
Risk free interest rate	4.42%	4.99%	6.36%
Dividend yield	2.60%	3.01%	2.91%
Volatility factor of the expected market price of the Company's common shares	.300	.267	.276
Expected life for the options (in years)	5.30	5.00	5.00
EMPLOYEE SHARE PURCHASE PLAN			
Risk free interest rate	2.17%	5.32%	5.98%
Dividend yield	2.60%	3.01%	2.91%
Volatility factor of the expected market price of the Company's common shares	.300	.267	.276
Expected life for the options (in years)	1.00	1.00	1.00

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

A summary of the Company's stock option activity and related information for the years ended December 31 follows:

(common shares in thousands)	LONG-TERM PERFORMANCE COMPENSATION PLAN					
	2002		2001		2000	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	915	\$9.18	862	\$9.24	671	\$9.60
Granted	171	10.00	224	8.63	229	8.25
Exercised	(239)	9.14	(93)	8.83	--	--
Expired/forfeited	(39)	9.12	(78)	8.68	(38)	9.59
Outstanding at end of year	808	\$9.37	915	\$9.18	862	\$9.24
	=====		=====		=====	

	2002	2001	2000
Weighted average fair value of options granted during year	\$2.62	\$2.00	\$2.18
Options exercisable at end of year	662	732	687
Weighted average exercise price of options exercisable at end of year	\$9.35	\$9.35	\$9.27
Options available for grant at December 31, 2002	851		
Price range of options at December 31, 2002	\$8.25 TO \$12.38		
Weighted average remaining contractual life (in years)	3.61		

10. OTHER COMMITMENTS AND CONTINGENCIES

Railcar leasing activities:

The Company is a lessor of railcars. The majority of railcars are leased to customers under operating leases that may be either net leases or full service leases under which the Company provides maintenance and fleet management services. The Company also provides such services to financial intermediaries to which it has sold railcars and locomotives in non-recourse lease transactions. Fleet management services generally include maintenance, escrow, tax filings and car tracking services.

Many of the Company's leases provide for renewals. The Company also generally holds purchase options for railcars it has sold and leased-back from a financial intermediary, and railcars sold in non-recourse lease transactions.

Lease income from operating leases to customers and rental expense for railcar leases were as follows:

(in thousands)	YEAR ENDED DECEMBER 31		
	2002	2001	2000
Rental and service income - operating leases	\$ 11,521	\$ 9,896	\$ 9,497
Rental expense	\$ 5,007	\$ 4,387	\$ 4,778

Future minimum rentals and service income for all noncancelable railcar operating leases greater than one year are as follows:

(in thousands)	FUTURE RENTAL AND SERVICE INCOME - OPERATING LEASES	FUTURE MINIMUM RENTAL EXPENSE
Year ended December 31		
2003	\$ 10,936	\$ 6,795
2004	8,191	5,630
2005	6,307	3,803
2006	4,644	2,808
2007	3,651	2,362
Future years	12,162	8,707
	\$45,891	\$30,105

Direct Financing Lease:

During 2002, the Company entered into a direct financing lease with a railcar customer. Future minimum lease payments to be received under this lease, net of executory costs, aggregated \$2.5 million at December 31, 2002. The Company's net investment in the lease of \$0.9 million is included as \$0.8 million in other assets on the balance sheet and \$0.1 million in prepaid expenses and other current assets.

Other Leasing Activities:

The Company, as a lessee, leases real property, vehicles and other equipment under operating leases. Certain of these agreements contain lease renewal and purchase options. The Company also leases excess property to third parties. Net rental expense under these agreements was \$5.1 million, \$5.4 million and \$5.2 million in 2002, 2001 and 2000, respectively. Future minimum lease payments (net of sublease income commitments) under agreements in effect at December 31, 2002 are as follows: 2003--\$3.1 million; 2004 -- \$2.5 million; 2005 -- \$2.3 million; 2006 -- \$1.0 million; 2007 -- \$0.6 million; and \$1.2 million thereafter.

Other Commitments:

The Company has agreed to fund a research and development effort at a rate of \$0.2 million per year for five years, ending June 30, 2007. The commitment may be satisfied, in part, by qualifying internal costs or expenditures to third parties.

The Company has from time to time entered into agreements which resulted in indemnifying third parties against certain potential liabilities. Management believes that judgments, if any, related to such agreements would not have a material effect on the Company's financial condition, results of operations or cash flow.

11. EMPLOYEE BENEFIT PLAN OBLIGATIONS

The Company provides retirement benefits for substantially all of its employees under several defined benefit and defined contribution plans. The Company's expense for its defined contribution plans amounted to \$1.4 million in each of 2002, 2001 and 2000. The Company also provides certain health insurance benefits to employees, including retirees.

Following are the details of the liability and funding status of the pension and postretirement benefit plans:

(in thousands)	PENSION BENEFITS		POSTRETIREMENT BENEFITS	
	2002	2001	2002	2001

CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	\$26,959	\$25,151	\$ 18,950	\$ 11,372
Service cost	2,265	1,884	721	610
Interest cost	1,891	1,560	1,601	1,224
Actuarial (gains)/losses	4,040	(121)	7,011	6,493
Plan amendment	--	--	(8,658)	--
Participant contributions	--	--	120	73
Benefits paid	(1,551)	(1,515)	(862)	(822)

Benefit obligation at end of year	33,604	26,959	18,883	18,950

CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	24,480	26,117	--	--
Actual losses on plan assets	(3,310)	(1,671)	--	--
Company contributions	4,506	1,549	742	749
Participant contributions	--	--	120	73
Benefits paid	(1,551)	(1,515)	(862)	(822)

Fair value of plan assets at end of year	24,125	24,480	--	--

Funded (underfunded) status of plans at end of year	(9,479)	(2,479)	(18,883)	(18,950)
Unrecognized net actuarial loss	14,670	5,369	16,063	9,825
Unrecognized prior service cost	89	115	(7,216)	--
Unrecognized net transition obligation	--	--	--	1,217

Prepaid (accrued) benefit cost	\$ 5,280	\$ 3,005	\$ (10,036)	\$ (7,908)
=====				

Amounts recognized in the consolidated balance sheets at December 31 consist of:

(in thousands)	PENSION BENEFITS		POSTRETIREMENT BENEFITS	
	2002	2001	2002	2001
Accrued expenses	\$ (548)	\$ (1,243)	\$ --	\$ --
Pension asset	5,828	4,248	--	--
Employee benefit plan obligations	--	--	(10,036)	(7,908)
Net amount recognized	\$ 5,280	\$ 3,005	\$ (10,036)	\$ (7,908)

Included in employee and benefit plan obligations are \$1.7 million and \$1.6 million at December 31, 2002 and 2001, respectively, of deferred compensation for certain employees who, due to Internal Revenue Service guidelines, may not take full advantage of the Company's primary defined contribution plan. Assets funding this plan are recorded at fair value in prepaid expenses and other current assets.

Amounts applicable to a Company defined benefit plan with accumulated benefit obligations in excess of plan assets are as follows:

(in thousands)	2002	2001
Projected benefit obligation	\$ 1,252	\$ 933
Accumulated benefit obligation	\$ 228	\$ 137

Following are components of the net periodic benefit cost for each year:

(in thousands)	PENSION BENEFITS			POSTRETIREMENT BENEFITS		
	2002	2001	2000	2002	2001	2000
Service cost	\$2,265	\$1,884	\$2,062	\$ 721	\$ 610	\$ 434
Interest cost	1,891	1,560	1,625	1,601	1,224	766
Expected return on plan assets	(2,197)	(2,366)	(2,353)	--	--	--
Amortization of prior service cost	26	26	26	(122)	--	--
Recognized net actuarial loss	246	25	73	587	420	157
Amortization of net transition obligation	--	--	--	83	111	111
Benefit cost	\$2,231	\$1,129	\$1,433	\$2,870	\$ 2,365	\$1,468

	PENSION BENEFITS		POSTRETIREMENT BENEFITS	
	2002	2001	2002	2001

WEIGHTED AVERAGE ASSUMPTIONS AS OF DECEMBER 31				
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected return on plan assets	9.0%	9.0%	--	--
Rate of compensation increases	4.0%	4.0%	--	--
Health care cost trend rate	--	--	7.5%	8.0%

The health care cost trend rate of 7.5% is assumed to decline 0.5% per year to 5.0% and remain at that level thereafter. During 2002, the Company amended its postretirement benefits plan to eliminate health benefits for any full-time employees hired after January 1, 2003.

The assumed health care cost trend rate has a significant effect on the amounts reported for postretirement benefits. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

(in thousands)	ONE-PERCENTAGE-POINT	
	INCREASE	DECREASE

Effect on total service and interest cost components in 2002	\$ 505	\$ (394)
Effect on postretirement benefit obligation as of December 31, 2002	273	(249)

To partially fund self-insured health care and other employee benefits, the Company makes payments to a trust. Assets of the trust amounted to \$4.0 million and \$4.6 million at December 31, 2002 and 2001, respectively, and are included in prepaid expenses and other current assets.

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of the Company's cash equivalents, margin deposits, short-term borrowings and certain long-term borrowings approximate their carrying values since the instruments are close to maturity and/or carry variable interest rates based on market indices. The Company accounts for investments in affiliates on the equity method. The estimated fair value of these investments could not be obtained without incurring excessive costs as these investments have no quoted market price.

Certain long-term notes payable and the Company's debenture bonds bear fixed rates of interest and terms of up to fifteen years. Based upon current interest rates offered by the Company on similar bonds and rates currently available to the Company for long-term borrowings with similar terms and remaining maturities, the Company estimates the fair values of its long-term debt instruments outstanding at December 2002 and 2001 as follows:

(in thousands)	CARRYING AMOUNT	FAIR VALUE
2002:		
Long-term notes payable	\$ 47,237	\$ 49,242
Debenture bonds	27,628	27,863
	<u>\$ 74,865</u>	<u>\$ 77,105</u>
	=====	=====
2001:		
Long-term notes payable	\$ 31,284	\$ 32,695
Debenture bonds	31,250	32,189
	<u>\$ 62,534</u>	<u>\$ 64,884</u>
	=====	=====

13. BUSINESS SEGMENTS

The Company's operations include four reportable business segments that are distinguished primarily on the basis of products and services offered. The Agriculture segment includes grain merchandising, the operation of terminal grain elevator facilities and the manufacture and distribution of agricultural inputs, primarily fertilizer, to dealers and farmers. The Processing segment includes the production and distribution of lawn care and corncob-based products. The Rail segment includes the leasing, marketing and fleet management of railcars and locomotives, railcar repair and metal fabrication. The Retail segment includes the operation of six large retail stores, a distribution center and a lawn and garden equipment sales and service shop.

Included in the Other segment are the operations of several smaller businesses and corporate level amounts not attributable to an operating segment. These smaller businesses included the operations of ten auto service centers (a joint venture that was sold in March 2000) and the marketing of the Company's excess real estate.

The segment information below (in thousands) includes the allocation of expenses shared by one or more segments. Although management believes such allocations are reasonable, the operating information does not necessarily reflect how such data might appear if the segments were operated as separate businesses. Inter-segment sales are made at prices comparable to normal, unaffiliated customer sales. Operating income (loss) for each segment is based on net sales and merchandising revenues plus identifiable other income less all identifiable operating expenses, including interest expense for carrying working capital and long-term assets. Capital expenditures include additions to property, plant and equipment, software and intangible assets.

2002	AGRICULTURE	PROCESSING	RAIL	RETAIL	OTHER	TOTAL
REVENUES FROM EXTERNAL CUSTOMERS	\$761,575	\$114,315	\$18,747	\$181,197	--	\$1,075,834
INTER-SEGMENT SALES	8,330	1,216	877	--	--	10,423
OTHER INCOME (NET)	1,340	501	41	685	872	3,439
GAIN ON INSURANCE SETTLEMENT	--	--	--	--	302	302
INTEREST EXPENSE (INCOME) (a)	5,772	2,333	1,068	1,546	(907)	9,812
OPERATING INCOME (LOSS)	18,986	(1,322)	1,563	4,003	(3,396)	19,834
IDENTIFIABLE ASSETS	263,651	85,140	35,378	57,046	28,600	469,815
CAPITAL EXPENDITURES	5,760	832	199	1,694	1,349	9,834
RAILCAR EXPENDITURES	--	--	8,203	--	--	8,203
DEPRECIATION AND AMORTIZATION	5,950	2,263	2,525	2,415	1,161	14,314
2001	AGRICULTURE	PROCESSING	RAIL	RETAIL	OTHER	TOTAL
Revenues from external customers	\$662,790	\$112,827	\$31,061	\$177,949	--	\$984,627
Inter-segment sales	5,645	1,212	930	--	--	7,787
Other income (net)	1,196	300	248	618	1,141	3,503
Gain on insurance settlement	338	--	--	--	--	338
Interest expense (income) (a)	6,179	3,428	1,846	1,900	(1,783)	11,570
Operating income (loss)	19,765	(7,654)	(349)	1,868	(1,699)	11,931
Identifiable assets	244,289	84,709	45,037	57,289	27,000	458,324
Capital expenditures	5,845	1,549	166	907	688	9,155
Railcar expenditures	--	--	21,790	--	--	21,790
Depreciation and amortization	6,399	2,341	2,432	2,426	666	14,264
2000	AGRICULTURE	PROCESSING	RAIL	RETAIL	OTHER	TOTAL
Revenues from external customers	\$648,410	\$107,434	\$18,972	\$183,817	\$2,489	\$961,122
Inter-segment sales	5,896	1,280	1,029	--	--	8,205
Other income (net)	1,204	358	233	611	1,583	3,989
Gain on sale of business	--	--	--	--	992	992
Gain on insurance settlement	2,088	--	--	--	--	2,088
Interest expense (income) (a)	6,186	3,424	1,748	1,706	(1,235)	11,829
Operating income (loss)	14,301	(3,470)	1,003	3,246	(716)	14,364
Identifiable assets	218,084	87,092	43,213	60,178	34,398	442,965
Capital expenditures (b)	9,648	9,276	72	1,484	488	20,968
Railcar expenditures	--	--	16,245	--	--	16,245
Depreciation and amortization	6,223	2,032	1,417	2,755	692	13,119

(a) The interest income reported in the Other segment includes net interest income at the corporate level. These amounts result from a rate differential between the interest rate on which interest is allocated to the operating segments and the actual rate at which borrowings are made.

(b) Capital expenditures in 2000 include assets purchased in exchange for long-term liabilities.

Grain sales for export to foreign markets amounted to approximately \$149 million, \$191 million and \$172 million in 2002, 2001 and 2000, respectively.

Grain sales of \$154 million, \$122 million and \$153 million in 2002, 2001, and 2000, respectively, were made to Cargill, Inc.

CORPORATE OFFICERS

DENNIS J. ADDIS
President,
Plant Nutrient Division

DANIEL T. ANDERSON
President, Retail Group

MICHAEL J. ANDERSON
President & Chief Executive Officer

RICHARD M. ANDERSON
President, Processing Group

RICHARD P. ANDERSON
Chairman

DALE W. FALLAT
Vice President, Corporate Services

PHILIP C. FOX
Vice President, Corporate Planning

CHARLES E. GALLAGHER
Vice President Human
Resources

RICHARD R. GEORGE
Vice President, Controller & CIO

BEVERLY J. MCBRIDE
Vice President, General Counsel & Corporate Secretary

HAROLD M. REED
President, Grain Division

RASESH H. SHAH
President, Rail Group

GARY L. SMITH
Vice President, Finance & Treasurer

BOARD OF DIRECTORS

DONALD E. ANDERSON
Director of Science, Retired
The Andersons, Inc.

MICHAEL J. ANDERSON
President & Chief Executive Officer
The Andersons, Inc.

RICHARD M. ANDERSON
President, Processing Group
The Andersons, Inc.

RICHARD P. ANDERSON
Chairman
The Andersons, Inc.

THOMAS H. ANDERSON
Chairman Emeritus
The Andersons, Inc.

JOHN F. BARRETT (2) (3)
Chairman, President & Chief Executive Officer
The Western & Southern Life Insurance Co.

PAUL M. KRAUS
Attorney
Marshall & Melhorn LLC

DONALD L. MENNEL(1)(3)
President & Treasurer
The Menzel Milling Company

DAVID L. NICHOLS(1)(3)
President & Chief Operating Officer, Rich's-Macy's/Lazarus/
Goldsmith's Division of Federated Department Stores, Inc.

DR. SIDNEY RIBEAU(2)(3)
President
Bowling Green State University

CHARLES A. SULLIVAN(1)(3)
Chairman
Interstate Bakeries Corp

JACQUELINE F. WOODS(2)(3)

Retired President
Ameritech Ohio

- (1) Audit Committee
- (2) Compensation Committee
- (3) Governance / Nominating Committee

INVESTOR INFORMATION

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP, Toledo, OH

NASDAQ SYMBOL

The Andersons, Inc. common shares are traded on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol ANDE

SHAREHOLDERS

As of February 28, 2003, there were 7.2 million shares of common stock outstanding: 674 shareholders of record and approximately 2,500 shareholders for whom security firms acted as nominees.

CORPORATE OFFICES

The Andersons, Inc
480 West Dussel Drive
Maumee, OH 43537
419-893-5050
www.andersonsinc.com

TRANSFER AGENT & REGISTRAR

Computershare Investor Services, LLC
2 North LaSalle Street
Chicago, IL 60602
312-588-4991

FORM 10-K

The Andersons' 2002 Form 10-K, filed in mid-March 2003 with the SEC, is available to stockholders and interested individuals without charge by writing or calling Investor Relations.

INVESTOR RELATIONS

Gary L. Smith
Vice President, Finance & Treasurer
419-891-6417
gary_smith@andersonsinc.com

ANNUAL MEETING

The annual shareholders' meeting of The Andersons, Inc. will be held at The Andersons' Activities Building, 1833 South Holland-Sylvania Road, Maumee, OH at 1:30 p.m. on May 1, 2003.

OUR MISSION

We firmly believe that our company is a powerful vehicle through which we channel our time, talent, and energy in pursuit of the fundamental goal of serving God by serving others.

Through our collective action we greatly magnify the impact of our individual efforts to:

- - Provide extraordinary service to our customers
- - Help each other improve
- - Support our communities
- - Increase the value of our Company

The Andersons, Inc.
480 West Dussel Drive
Maumee, Ohio 43537

SUBSIDIARIES OF THE ANDERSONS

Subsidiary -----	State of Organization -----
The Andersons Ag Software, Inc. (a corporation owned 100% by Metamora Commodity Company, Incorporated)	Ohio
The Andersons Agriculture Group, LP (a limited partnership owned 99% by The Andersons, Inc. and owned 1% by TAI Holdings, Inc.)	Ohio
The Andersons Agriservices, Inc. (a corporation owned 100% by The Andersons, Inc.)	Illinois
The Andersons AgVantage Agency, LLC (a limited liability corporation owned 100% by Metamora Commodity Company, Incorporated)	Ohio
The Andersons ALACO Lawn, Inc. (a corporation owned 100% by The Andersons, Inc.)	Alabama
The Andersons Lawn Fertilizer Division, Inc. (a corporation owned 100% by The Andersons, Inc.)	Ohio
The Andersons Mower Center, Inc. (a corporation owned 100% by The Andersons, Inc.)	Ohio
The Andersons Technologies, Inc. (a corporation owned 100% by The Andersons Lawn Fertilizer Division, Inc.)	Michigan
Crop & Soil Service, Inc. (a corporation owned 100% by The Andersons, Inc.)	Ohio
Metamora Commodity Company Incorporated (a corporation owned 100% by The Andersons, Inc.)	Ohio
TAI Holdings, Inc. (a corporation owned 100% by The Andersons, Inc.)	Michigan

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-101770, 333-00233 and 333-53137) and Registration Statement on Form S-3 (No. 333-79307) of The Andersons, Inc. of our report dated January 27, 2003 relating to the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 27, 2003 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Toledo, Ohio
March 19, 2003

THE ANDERSONS, Inc.

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I Michael J. Anderson, hereby certify that the Annual Report on Form 10-K of The Andersons, Inc. (the "Issuer"), which this certificate accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Signed:

/s/ Michael J. Anderson

- -----

Michael J. Anderson

President and Chief Executive Officer

Date: March 19, 2003

THE ANDERSONS, Inc.

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I Richard R. George, hereby certify that the Annual Report on Form 10-K of The Andersons, Inc. (the "Issuer"), which this certificate accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Signed:

/s/Richard R. George

Richard R. George

Vice President, Corporate Controller & CIO
(Principal Accounting Officer)

Date: March 19, 2003

THE ANDERSONS, Inc.

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I Gary L. Smith, hereby certify that the Annual Report on Form 10-K of The Andersons, Inc. (the "Issuer"), which this certificate accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Signed:

/s/Gary L Smith

- - - - -

Gary L. Smith
Vice President, Finance and Treasurer
(Principal Financial Officer)

Date: March 19, 2003

